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TOPICS OF THE MONTH

THE RURAL CREDITS MUDDLE

REDUCED to its lowest terms, the demand for rural credits legislation is the expression of a desire to give securities issued against farm lands the same marketable qualities that are had by other securities of similar nature and stability. Once the securities issued against the farm lands have the same kind of market as railroad or industrial bonds, they will become reasonably liquid and highly desirable investments.

The question of a plan which would produce such a result has been complicated by the injection of all sorts of extraneous and cranky notions. Amateur students of foreign co-operative financial schemes have muddled themselves and everyone else by proposing to transplant to this country those systems, regardless of the character of American soil and American men.

Men with ideas that interest rates should be reduced have sought to graft their notions on every rural credits plan proposed. Farmers who think the Government should lend them money have been alert and the corn-tassel money crowd has recorded its belief that rural credits consists in issuing currency against farm lands. In rural credits legislation built from his design, each of these has seen the solution of all the problems of distribution, soil

decay, conservation, transportation, high prices for the producers and social reform; in legislation built after any other design is decadence, injustice and the indefinite postponement of the millennium's arrival.

The only real problem presented for solution by rural credits legislation is concerned with the marketableness and liquidity of the securities issued against farm land mortgages. It is not a particularly difficult problem. It involves only the holding of the mortgages by some competent official, preferably a state official, the orderly issuance of bonds against them and the protection of the purchaser of the bonds against fraud and error through a competent system of transfer.

All the other problems have nothing to do with rural credits *per se*. Direct loans by the Government to farmers is another matter. Regulating or attempting to regulate interest rates by statute is another matter. Co-operation is another matter, and is usually provided for in other laws. Issuing currency is another matter. Helping the tenant farmer is another matter and financing the insolvent farmer is so much another matter that it has baffled philanthropists engaged in eleemosynary enterprise.

As business men, farmers' needs for loans on current account for short time are amply provided for now. There are nearly 30,000 banks in the country and the Federal Reserve Act gives agricultural paper the preference. If a farmer cannot secure accommodation of this kind at a bank it is not because he is a farmer or because the banking facilities are inadequate, but because his credit is not good. No plan has ever been devised whereby a loan to an insolvent man would be safe. Co-operative organization helps the insolvent man by giving him solvent connections; it does not make him solvent. Any solution of the insolvent man's problem by recourse to co-operation will not come from legislation but from the action of the farmers themselves. If there was co-operation or a desire for it legislation would follow fast enough, if it has not preceded. But co-operation of this kind is not peculiar to farmers. It is common enough in the towns and cities. It is a recourse to which the farmers have not turned although it is open to them.

If each state legislature will turn out a law providing for the issuance of bonds against farm mortgages segregated in series and amounts sufficient to warrant a bond issue, safeguard the transfer of these bonds and make them legal investments for savings banks and trustees, the bonds will sell readily enough. Where such laws are now in effect, the failure to take advantage of them indicates nothing except that the farmers prefer other methods.

It would be a great relief to have rural credits divorced from the multiplicity of uplift and reform schemes with which it has no real connection. Just at present it is so loaded down with salvation enterprises that its creator would not recognize it. About everything from preparedness to unemployment is masquerading in the guise of rural credits.

NEW TAXATION

All plans of taxation and methods of increasing the revenues of the Government have as their excuse or justification the necessity of financing plans for national defense. If any scheme of national defense is adopted it must be financed. As one means of raising revenue for this purpose the Ways and Means Committee of the House of Representatives has agreed to a tax on the manufacture of war munitions. From this tax it is ex-

pected there will come a revenue of as much as \$40,000,000 a year.

According to all the plans offered, preparations for national defense will extend over a period of several years. The cost will be continuous. The revenue from a tax on war munitions will fall to nothing when the war in Europe is over. Or, when the war in Europe is over, the chief purchaser of munitions from American manufacturers will be the Government of the United States. Thus the Government will pay the tax it imposes unless the European war is of the same duration as the execution of the plan for national defense. The natural query is whether the Ways and Means Committee contemplates making preparedness depend in part, at least, on the continuance of the war in Europe. Or is it merely penalizing commercial success as a means to securing revenue for pork?

By diligent search the patient investigator can find an item of interest sandwiched in here and there between the dissertations on usury in the comptroller's last report.

STILL IN OPERATION

A glance at the financial page of a daily newspaper will disclose the ancient item about the gains and losses of the banks in dealings with the treasury. On January 1 the Federal reserve banks were officially designated as government depositories and fiscal agents, but the treasury is still doing the banking business of the Government.

Government funds are still subject to the control and direction of one man—the Secretary of the Treasury. They are still poured into the channels of trade, or withdrawn, with no regard to the needs or condition of business. On the fallible judgment of a single individual depends the financial attitude of the Government toward the world of commerce. The plan of Congressman Glass for the abolition of the treasury system, which was passed by the House of Representatives, is a dream. The estimate of Senator Owen that the fiscal operations of the Government would form an integral part of the work of the Federal reserve system and that the Government would have on deposit with the Federal reserve banks \$150,000,000 is still an estimate. Banking reform, as evidenced by the Federal Reserve Act, is reform for the banks, not for the Gov-

ernment. In the banks it has created for the people the Government itself has no confidence. Officially only the reserve banks are government depositaries and fiscal agents. Practically, so far as the Government is concerned, they are doing nothing except pine for business.

A NEW FORM OF GOVERNMENT

The American Federation of Labor has 2,000,000 members. Affiliated with it are 3,000,000 farmers' national union men and 1,000,000 railroad union men. The labor leaders are now endeavoring to "organize" the school teachers. Hugh Frayne, general organizer of the Federation of Labor, in addressing a meeting of New York school teachers, said:

If there is any system of education in the public schools of this city which does not meet the approval of the American Federation of Labor we are going to stop it. Since they won't give sufficient wages on the decent principle that you are worth it, have your union and make them give it to you.

No stranger criticism of representative government has been offered so boldly. That the American Federation of Labor is going to pass on the system of education is an incident. More interesting is the use of the pronoun of the third person, "they." If "they" won't give sufficient wages, "make them give it to you." Potentially here is one group or faction—the school teachers, supported by organized labor—undertaking to compel another group or faction to do something. This second group or faction, the employer in this instance, is the public. This public operates the school system through its representatives. To compel the representatives to do anything is to compel performance by the people themselves.

Thus there is one set of people, organized and professing to have 6,000,000 members, which purposes using some form of force or intimidation or deprivation as the means of compelling another set, unorganized and having 95,000,000 members, to do something. That is not a correct statement of the case because it is quite impossible to distinguish the 6,000,000, or any part of them, from the 95,000,000, or any part of them. The whole mass is inextricably mixed. The 6,000,000, therefore, purpose using force to compel themselves to do something.

It has been the supposition in this country that the only manner by which the people can compel themselves to do anything is by ascertainment of the will of the majority through the medium of an election held according to law. Any other method would be an innovation in government. Considered from the viewpoint of American institutions, an innovation in government is just what Mr. Frayne has proposed. He would substitute the will of a minority, or the leaders of a minority, for that of the majority. He would replace freedom with tyranny, constitutional government with force, and deny to "them"—the people—the right to conduct their own affairs in the legally appointed way.

If there was any such thing as a "labor vote"—if the leaders of labor could control labor—the situation would be less absurd. But the leaders of labor cannot control the votes of labor. They have recourse, therefore, to threats and intimidation. Not until labor leaders can use labor's strength at the polls will the tyranny of organized labor be dangerous.

The dean of the futurist school of art is engaged on a painting of the battle of Verdun. There is a good chance that there will yet be made an oil portrait of the Federal Reserve Act and a chromo of the check collection system.

THE QUESTION OF RESERVES

Representative Louis T. McFadden of Pennsylvania, has introduced a bill amending the provision of the Federal Reserve Act in regard to the reserve requirements for country banks. The last paragraph of section nineteen (a) is changed by the addition of the words printed in italics:

After said thirty-six months' period said reserves, other than those hereinbefore required to be held in the vaults of the member banks and in the Federal reserve bank, shall be held in the vaults of the member banks or in the Federal reserve bank, or in both, *or in member banks in reserve or central reserve cities as now or hereafter defined by law within a radius of three hundred miles of the member bank or within the Federal reserve district in which the member bank is located*, at the option of the member bank.

This amendment would leave in the vaults of the member bank permanently four-twelfths and

in the Federal reserve bank five-twelfths of the required reserve, and place the bank in control of the remaining three-twelfths which it could carry on deposit with reserve agents, if it chose. The amount of reserve money whose deposit would thus be optional with country banks would be a little over \$100,000,000.

Discussion of this suggested change in reserve requirements opens not only the whole question of bank reserves but of the provisions of the Federal Reserve Act as to check clearings also. The fixing of the reserve requirements in the Act was an arbitrary process. There was nothing in experience or in the National Bank Act or in the laws of foreign countries which could be used for guidance. In this respect there was considerable doubt and hesitation on the part of members of the banking and currency committees of both houses of Congress. As it passed the House the bill providing for what is now the Reserve Act called for reserves of twelve per cent. for country banks and eighteen per cent. for reserve city and central reserve city banks. This requirement was unchanged except as to reserve city banks, where the amount was reduced to fifteen per cent.

The conference of representatives of state bankers associations and clearing house associations with the Currency Commission of the American Bankers Association in Chicago in August, 1913, recommended reserves of twelve, eighteen and twenty per cent., of which one-third of the amount required of country banks and reserve city banks could be carried with reserve agents. It was this suggestion which probably caused the reduction in the requirement for reserve city banks from eighteen to fifteen per cent. The law makers apparently thought it better to reduce the requirements for reserve city banks than to permit any portion of balances with agents to be counted as reserve. At the same time they thought it inadvisable to reduce the requirements for country banks below twelve per cent. The latter was in agreement with the recommendations of the Chicago conference so far as the amount was concerned.

In his report on the bill, Mr. Glass said the purpose was "to readjust reserve requirements * * * in such a way as to make them conform to the dictates of scientific banking" with the following "main objects":

1. To abolish entirely the present system of redeposited or "pyramided" reserves.

2. To establish a moderate required reserve actually to be held in cash in the vaults of the banks.

3. To prescribe a secondary reserve to take the form of a credit with the Federal reserve banks.

Continuing Mr. Glass' report said:

In outlining the general philosophy of the proposed banking bill it was pointed out that the existing system of redeposited reserves gives rise to cheap money for stock exchange speculation in the centers, while it fails to provide in times of panic a reserve upon which the country can draw with assurance, because at such times stock exchange securities cannot be easily liquidated, so that call loans are unavailable as a resource, and the city banks in self-defense have deemed themselves warranted in suspending specie payments. It is contended, however, that these difficulties and irregularities of the existing system are mere blemishes upon the surface of an otherwise desirable state of affairs, and that there is good and sufficient economic reason for maintaining the present system of redeposited reserves at least in part. This claim may be reduced to a series of propositions, as follows:

1. The redeposited reserves are placed with the city banks not for stock speculation, but in large measure at least to supply exchange funds upon which the depositing banks may draw.

2. The redeposited balances must be kept with the banks which now hold them, because the country banks look to these city banks for accommodation and the latter gauge the amount of accommodation to be granted them by the size of the balances.

3. The country banks, and in general all banks, making the redeposits get a rate of interest thereon. They are thus able to make use of a reserve which would otherwise be "dead," and which when held in cash or in the Federal reserve banks will yield them no revenue, the latter banks being forbidden by the terms of the bill to pay interest on deposits.

These contentions are worthy of careful study, because they are widely urged.

Regarding the first point—the question of exchange funds—it will be noted that the proposed bill has met the requirements for such funds by specially directing Federal reserve banks to receive specified classes of checks at par. It has thus largely wiped out the necessity for any such balance as now held. It may be noted, however, that there is in the bill nothing whatever to prevent the banks from maintaining any amount of such balances with city banks as they desire. Clearly if the balances with the city banks are exchange balances they are not reserves, and there is no reason for regarding them as such.

The second point already noted has even less force than the first. Not only does the proposed bill provide more extensive facilities for rediscount than have ever

been known, but even if it did not do so, and even if, as alleged, there are many kinds and classes of security not eligible for rediscount under the bill which country banks can use as a basis for accommodation only with city banks, it would still remain true that this does not afford any warrant for demanding the maintenance of the existing situation. The refusal to grant accommodation except in proportion to the amount of balance held by the would-be borrower is purely a matter of business practice. If a condition should be created under the proposed bill such that banks could not maintain the present reserve city deposits, it is hardly expected that the reserve city banks would immediately injure themselves, and destroy their own source of business profits, by refusing to buy good marketable paper or to extend loans upon sound security merely because conditions had altered and the large balances of former days were no longer kept with them.

As for the third contention—the loss of interest to depositing banks due to the sacrifice of their two per cent. on reserve balances—the argument against the proposed change almost degenerates into absurdity. The measure so greatly broadens the scope of the banking business as to open many new avenues of profitable investment, while the sacrifice of the two per cent. now customarily paid is not only no loss to the community but represents the abolition of a long-standing evil which has drawn funds to places where they were not needed and away from those where they were.

In the ultimate analysis the whole question simmers down to an issue whether the amount of reserve prescribed under the proposed bill is or is not excessive, and whether it can or cannot be readily furnished by banks under the terms of the suggested legislation. The existing system is not backed either by the custom of other countries, by abstract logic, by the dictates of past experience, or by any other considerations. The only problem in the case is that of determining the correct amount of reserve to be required by the banks, and then of making the transition to the new basis under proper conditions.

Two statements in this argument are worth particular attention: (1) If balances with agents are carried for exchange purposes, "they are not reserves"; and (2) "The only problem in the case is that of determining the correct amount of reserves to be required."

The whole matter can be considered only in relation to practical banking operations and if balances have customarily been used for the dual purpose of reserve and exchange they must be considered in relation to each other. The experience of sixteen months in which the Federal reserve banks have been substituted to an increasing extent for reserve agents has demonstrated that there is a close relation between reserves and the balances carried for exchange purposes. If the new check

collection system cannot be popularized and made satisfactory to the banks, the deposits with Federal reserve banks will be composed of only required reserves and must be inactive funds held as a form of insurance against stress or to meet unusual demands. Except for some perfunctory open market transactions the chief duty of the reserve banks will be to mark time until the arrival of the expected emergency. In such event there will have been created an expensive piece of banking machinery whose cumbrousness is out of all proportion to probable requirements.

The check collection system is at present not only imperfect, but it seems to have been developed in a haphazard way, with each reserve bank doing about as it pleases and no two of them operating in the same manner. The presence of clearing house systems that are both adequate and satisfactory, the probability of the establishment of more country clearing houses, and the certainty of the continued existence of another clearing system by and for state banks make it doubtful whether any clearing scheme by the reserve banks will ever be effective or exclusive.

Under the old banking system balances with agents served the double purpose of reserve and exchange. Out of experience under that system there was little to be learned as to the second proposition—the determination of the correct amount of reserve to be required. The item of interest on balances has only the importance of influencing this determination in respect to desirability and satisfaction. The more important points are:

1. Are the resources of the Federal reserve banks ample or more than ample to meet any increase in the demand for currency and credit?
2. Are reserves below the present required amount sufficient for safety and, more particularly, can the percentage of reserves for country banks be safely reduced?

The first question will be immediately answered in the affirmative. With their present resources the reserve banks could have met the emergency of August, 1914, with ease. The consensus of opinion seems to be that no exigency in the country's financial history equaled that one either in suddenness or extent. The permissible expansion possible under the Federal Reserve Act is now beyond any conceivable demand and the

final payment on reserve account has not yet been made by member banks. The repayment of capital stock to the subscribing banks and some diminution in the reserve requirements would not so impair the resources of the reserve banks that their power to meet an emergency would be open to question.

The second query is not so easily answered. As to safety, so far as reserves can insure it, many things have to be considered. A first point is that reserves can never be fixed by law. A minimum may be fixed. This may be higher than safety requires for many banks. Others may be in an unsafe position when their reserves are two or three times the amount required by law. Actual reserve requirements vary with the seasons and always depend on the nature of the bank's clientele and business. Only the banker himself knows what is a safe reserve for his bank and he sometimes miscalculates.

The situation in its relation to banking safety, so far as reserves insure safety, has been radically changed by the institution of the reserve system.

Not only member banks, but all banks feel this influence. Banks which have never rediscounted, and perhaps never will, can make loans with greater assurance and in greater amount since the rediscount system became a reality. State banks are indirectly benefited and they are quite aware of it. The satisfaction that is felt in this respect would be more general and more pronounced if money conditions had not been so easy during the past year. With money in excess of the demand for it, less consideration has been given to this matter than it deserves or than it would have received under other circumstances. More consideration has been given to points of less importance.

The situation in regard to the determination of "the correct amount of reserves" is therefore decidedly different from that of 1913, when Mr. Glass wrote his report. Experience has brought diagnostic information and demonstration has displaced speculation.

The situation has not as yet been completely clarified, however. Bankers have not yet learned the advantage of carrying a line of secondary reserves in the form of quick assets susceptible of instant conversion into cash through the process of rediscount. Business customs have interposed a drawback as shown by the practical impossibility of securing a sufficient amount of acceptances. The

amendment to the Reserve Act permitting banks to accept paper arising out of domestic transactions will aid materially in this respect. The expansion of the custom of substituting trade acceptances and bankers' acceptances for promissory notes is even more important. When customs in this respect have been changed, and every bank can have a line of quick assets in the form of rediscountable bills, the necessity for large cash reserves will disappear. It will be eventually possible that the only reserve demanded for legal safety will be carried in the reserve banks. The bank's own necessity for cash will be measured by the probable demand of its customers.

However, the Reserve Board has not contributed particularly to the achievement of this end. Nor does the Reserve Act itself. The tendency under the law has been toward expansion and very little has been done toward contraction. Too much currency has made it unnecessary for the banks to have recourse to the rediscount privilege. Instead of discouraging note issues, they have been encouraged. Efforts have been made to keep interest rates down and to stimulate borrowing. All of this has operated to prevent a flow of business to the reserve banks.

It is, therefore, difficult to measure the amount by which present reserve requirements can be safely reduced. The question of the amount of reserves that should be required is, after all, the real question. Apparently, however, there is no question as to the propriety or safety of reducing the reserve for country banks by three per cent. It is immaterial whether this is done by permitting them to count balances to that extent with reserve agents as reserve or whether there is an outright reduction in the reserve requirements.

THE TENDENCY TO INFLATION

Every problem connected with the interpretation and application of the Federal Reserve Act has been complicated by the natural desire that the banks earn profits and by the uncovering of defects of the Act itself. Matters would be greatly simplified if the entire subscription to capital stock were made a liability of the member banks and the paid-in proportion returned to them. This would, of course, relieve the reserve banks of the necessity of earning dividends and, if they were so relieved, there would be less eagerness to get their notes

into circulation. The issue of notes under the conditions that have existed for a year creates a dilemma. If the presence of money in unnecessary quantity has made rediscounting infrequent, adding to the sum of the currency as a means of earning profits makes earning by rediscount still more remote.

The provision for the refunding of government bonds, having the circulation privilege, permits the Federal reserve banks, after their purchase of such bonds, to issue notes against them if they so desire. These are called Federal reserve bank notes and they make still another addition to the variegations of the currency. Only one reserve bank seems to be making a particular effort to put out such notes. The Kansas City Reserve Bank is industriously drumming up business of this kind. It has sent out the following circular letter addressed to member banks in District No. 10:

Within a few days this bank will be in position to issue, in \$10 denomination only, the first of the new Federal reserve bank notes.

We have no doubt you will be glad to receive a few thousand of this new and attractive currency for local distribution, and are pleased to advise that for your New York, Chicago or St. Louis exchange, at par, we will make shipment of your requirements. Inasmuch as the demand for this new currency will probably be great, there may be some little delay in making shipment; but requisitions will be honored in the order of their receipt, and as expeditiously as possible.

The provision of the Federal Reserve Act as to the refunding of the government bonds, having the circulation privilege, is rather difficult to interpret. Mr. Glass and the House of Representatives seem to have had ideas that were at variance with those of the Senate. In his explanation of this provision Senator Owen said:

The House measure provided for retiring five per cent. of the outstanding two per cent. bonds held for national bank circulation by the exchange of three per cent. bonds without circulation privilege for such two per cent. bonds. * * * We have preferred to absorb such of these bonds as would be offered on the market by permitting the Federal reserve banks to buy such two per cent. bonds and issue Federal reserve bank notes against them just as the national banks do.

It was reasonably plain that the Senate did not wish to make any material reduction in the amount of outstanding currency. The House evidently did. In his explanation Mr. Glass said that the most obvious reason for the retirement of the two per cent. bonds was that the notes secured by them are not elastic. His statement continued:

By this is meant that the necessity of purchasing bonds to be deposited with the trustee for the protection of note issues prevents banks from issuing these notes as freely and promptly as they otherwise would, while it also prevents them from retiring or contracting the notes as freely and promptly as would otherwise be the case. There is little or no disagreement at present among students of the banking and currency problem in the United States that *the retirement of the bond-secured notes is essentially necessary if success is to be had in restoring elasticity to the circulation and in making the national banking system really responsive to the needs of business.* For that reason every plan of currency or banking reform that has been put forward during the past fifteen years has contained as an important factor some provision for getting rid of the bond-secured notes. * * * The only way to relieve the bad conditions that have developed in connection with national bank currency is, therefore, generally admitted to be the abandonment of the bond-secured currency plan and the introduction of something else in its place.

In the adjustment of the controversy in conference both ideas were incorporated in the bill. Permission to issue notes against bonds purchased by the reserve banks stands as an alternative to their exchange for three per cent. bonds. The plan to issue Federal reserve bank notes must be considered as a step in the process of expansion and it is directly opposed to Mr. Glass' remarks about elasticity and the necessity for it. The presumable purpose of the Kansas City Reserve Bank in creating a demand for Federal reserve bank notes is profit. On the first million the bank can earn probably one and six-tenths per cent. and, by using the proceeds of that transaction to buy more bonds, it can go on almost indefinitely pouring out floods of currency. There has been no indication that the Federal Reserve Board has any notion of damming this stream.

A. D. W.



Exchange of Notes for Gold Leaves Reserve Banks' Lending Power Unimpaired

Also Results in Gradual Accumulation of Gold from Member Banks into the Hands of Federal Reserve Agents—Reserve Notes Covered by Gold almost Dollar for Dollar—Large Store of Gold a Valuable Buffer.

THE paradoxical situation presented by the fact that the twelve Federal reserve banks had on March 11 issued \$164,800,000 of Federal reserve notes in response to rediscount, with an impairment of less than \$13,000,000 in their lending (or rediscount) power, has directed attention to what is charged in some quarters as a direct violation of the intent of the Federal Reserve Act, and in others as a "gold policy" involving great protective values.

The note account of the twelve banks on that date showed:

Issued to the banks.....	\$191,678,000
Held by the banks.....	26,864,000

In circulation.....	\$164,814,000
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Against which, Federal reserve agents' accounts showed:

Gold coin and certificates.....	\$120,122,000
In gold redemption fund.....	10,612,000
With Federal Reserve Board.....	48,740,000

	\$179,474,000
Commercial paper.....	12,204,000

	\$191,678,000
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The notes in circulation plus those held for issue by the banks, or the total issued by Federal reserve agents, amounted to \$191,678,000, offset by a dollar for dollar gold cover, except as to the comparatively unimportant \$12,204,000 of rediscounted paper, or a gold cover of ninety-three and six-tenths per cent. as against the required forty per cent. on notes actually in circulation.

The theory of the act is that notes shall be issued to member banks in response to rediscounts. A distinction not generally understood is that that is not the only process by which a member bank can acquire reserve notes. The Federal reserve agent cannot issue notes to the bank except in response to the presentation of rediscounted bills as collateral. The notes once in the hands of the bank can be issued to its members as proceeds of a rediscount of paper, or in exchange for gold, gold coin or gold certificates, or may at its discretion apparently make such exchange with any person, corporation, bank or concern that has gold, coin or certificates and wishes to exchange for Federal reserve currency. Such a transaction, under the open market powers conferred upon Federal banks, would be clearly permissible.

The point upon which the course of reserve banks during the past year is criticized is not that they have turned reserve notes into gold, but that they have acquired gold with rediscounting to only the extent of six and four-tenths per cent. of the notes issued by Federal reserve agents. The following explanation of this course is made by the reserve agent of one of the Federal reserve banks that has actively accumulated gold by this process:

"The issue of Federal reserve notes and the accumulation of gold in Federal reserve banks has in no way violated the law. In each case of issue by a Federal reserve agent to his bank, the issue has been upon rediscounted bills as collateral. This has not prevented the bank, once in possession of notes from presenting gold later and requesting the return of the collateral. Through this process, the issued notes have been replaced with gold in the hands of the reserve agent. The bank has undoubtedly had a clear right, once in possession of Federal reserve notes, to exchange them for gold, and this process has been largely followed. The series of transactions has therefore been the rediscount of paper, the presentation of the paper as collateral for note issue to the bank, the exchange by the bank of notes for gold, and the redemption of the paper in the hands of the reserve agent, with gold. An unexpected result of this process has been the accumulation of the bulk of the gold held by reserve banks, in the hands of reserve agents.

"It should be pointed out that no inflation has accompanied this process. Gold has been taken from banks and out of the hands of the people, and placed in the reserve agents' vaults, for every dollar of reserve note issue, with the exception of an unimportant fraction. The issued notes are backed to nearly their full face with gold held for their redemption. A large store of gold has been segregated in Federal reserve banks, which will, in my opinion, form in time an exceedingly valuable buffer.

"In the readjustments following the great conflict in Europe, there will unquestionably be a strong demand for the gold which has so freely flowed into the United States for months past. We cannot hold all this accumulation. If foreign nations desire part of it, and have a means of buying it, the question will not be whether we wish to retain it, but whether the countries that need it have the means of getting it. It is not to be thought that they will not devise a means.

"The withdrawal of gold from commercial banks, or withdrawals from the treasury would work hardship, and very possibly severe disturbance. It appears to me that the desirable and simple method of meeting this prospective situation is to interpose the Federal reserve banks, from which gold can be drawn on the presentation

of notes for redemption. In commercial banks, the gold stock supports a credit structure of from six to eight times its face, and some authorities are inclined to believe even more. The gold recently acquired by Federal banks supports no such volume of credit. It is a base for credit only dollar for dollar. It therefore appears that the least disturbance will follow when the gold that supports only its face in credit is withdrawn, rather than the gold supporting many times its face. The process of acquisition should therefore continue. The lending power of Federal banks is very great, but this process has not touched it. This power is held in reserve, hand in hand with the power to release even now, very large amounts of gold without the slightest danger to business and industry. Upon the appearance of an unusual demand for redemption, and corresponding reduction of reserve note circulation, it would undoubtedly be the policy of reserve banks, if a contraction of currency threatened, to expand the note issue freely in response to rediscount, beginning at this point to make use of their lending power."

In some cases that have already come to notice, reserve banks have acquired gold through the substitution, by friendly co-operation, of large denomination bills of their issue, in the reserves of state banks, for gold previously in reserve. This method of acquiring gold has been little commented upon, but appears recently to have caught the attention of the Federal Reserve Board, as indicated by the following statement from Washington:

"The desire of the Federal Reserve Board to bring state banks and trust companies into the system takes on

an international aspect in view of the large movement of gold to other countries which is expected to take place at the end of the war. The Board is particularly anxious to have the state banks come into the system in order that a heavy gold reserve may be piled up as a firm basis for American finance during the years of financial unrest almost certain to follow the European conflict. The United States will be in a stronger position internationally and will be better able to guard its position in the foreign exchange market if it has heavy gold accumulations. The Board feels that the means that is presented of strengthening the gold holdings of the reserve banks through membership and co-operation of state banks is one that should be availed of. This will be accomplished to the fullest extent only when state banks generally enter the reserve system. Board members believe that as soon as the check clearing problem is worked out state banks will find it the part of wisdom to enter the system, the action of the larger banks encouraging the membership of the smaller."

Whatever official foundation this statement has, it probably reflects accurately the view of the Board, which has given state bank membership very serious consideration and is disposed to put as few obstacles in the way of such action as possible. In many sections the fear of the Comptroller's report requirements is probably as serious as any single factor in deterring state banks. Check collection is important, but not a primary consideration, since state banks have always had good collection facilities, and may be expected to continue to enjoy them whether through the Federal banks or not.

ANOTHER VARIETY OF PAPER MONEY

Editorial in *The New York Sun*, March 22, 1916

Currency reform is not working exactly along the lines of promise, judging from the statements of the Treasury Department and the weekly reports of the Federal reserve banks. One of the avowed objects of the legislation of 1913 was to get rid of bond secured bank note circulation in the course of time, its place to be taken by Federal reserve notes with a gold cover and secured by discounted commercial paper. Certain features of the Federal Reserve Act have seemed obstructive of this process and some curious things are happening.

The treasury statement of money in circulation as of March 1 showed \$2,999,970 of Federal reserve bank notes. The statement for February 1 showed \$1,000,000 of such notes, which, as distinguished from the ordinary Federal reserve notes, are put out on the security of government bonds. Not until the Federal reserve bank statement of March 10 was published was the actual circulation of the new notes disclosed. At that time it appeared that during the previous week the reserve bank of Kansas City put out \$419,000 of bank notes, and last week's statement showed an increase of reserve bank note issues to a total of \$681,000. The discrepancy be-

tween these and the treasury figures for March 1 may be accounted for by the supposition that the Federal reserve banks had taken out about \$3,000,000 of circulating notes by the beginning of the month, of which in the first three weeks only a little more than one-fifth was actually issued.

Recently the Federal reserve banks solicited offers of Government bonds from national banks and bought more than \$5,000,000 of bonds last week. From January 1 to the end of last week the reserve banks had bought in all about \$23,500,000 of government bonds bearing the circulating privilege. Now while the Federal reserve bank holdings of government bonds are far in excess of the amount of note issues which the reserve banks have put out, or even taken out, on a government bond basis, the question arises why they are circulating bond secured notes at all. It looks like a mighty poor beginning of real currency reform.

Only a few weeks ago the Federal Reserve Board recommended legislation which would permit the treasury to coin less of the gold held against gold certificates, so great has been the heaping up of the metal in the last year or so, with the result that since March

1, 1915, gold certificates in circulation have increased more than \$380,000,000. Interest rates remain phenomenally easy and all the financial incentives of the moment should conduce to a contraction of paper currency.

A tendency to contraction is implied in the national bank retirement of circulating issues, coincident with the sale of government bonds to the Federal reserve banks. Why then are the reserve banks working to keep bond secured currency outstanding? They are not primarily money earning institutions. They pay no interest on deposits, and the interest return on their government bond holdings should be a sufficient compensation without a resort to the slight increment of income obtainable through the employment of the circulating privilege.

The Federal Reserve Act allows the reserve banks to put out circulating notes on the deposit of government bonds with the Comptroller of the Currency. This seems to be an unchecked power, unless in the general terms of the authority given to the Federal Reserve Board there is authority to regulate bond secured note issues. Yet in any case the issuance of circulating notes against government bonds could be sanctioned only in a great emergency such as neither exists nor impends.

The latest addition to our already manifold varieties of paper money carries us further away than ever from the currency reformation for which the Federal Reserve Act was ostensibly intended to prepare.

SPRING MEETING OF THE EXECUTIVE COUNCIL

The Spring Meeting of the Executive Council, American Bankers Association, will be held May 8, 9 and 10 at Briarcliff Lodge, Briarcliff Manor, New York. The program will be along the same lines as in previous years, with committee meetings on Monday and Council meetings on Tuesday and Wednesday. An unusual feature will be a meeting of special representatives from each Section for the purpose of discussing and formulating a harmonious program for the Kansas City convention. Through co-operation on the part of the Sections in planning their several programs, it is believed that the topics discussed at the Section meetings may be made to bear on one central idea and thus produce a unification of thought and purpose.

The permanent Council committees which are to be represented at Briarcliff are: Committee on Law, Committee on Federal Legislation, Committee on Membership, Administrative Committee, Finance Committee, Protective Committee and the Special Committee on Credit Forms appointed at Seattle. In addition, there are the Association committees, consisting of the Currency Commission, Agricultural Commission and Insurance Committee.

Entertainment constitutes a very minor feature at the Council meetings. Any recreation by those who attend will be found during the days either before or after the business sessions, or at odd times when there is no possibility of a clash between business and pleasure.

SPECIAL TRAIN TO BRIARCLIFF

As in former years when the Spring Meeting of the Executive Council, American Bankers Association, has been held at Briarcliff Lodge, a special train de luxe has been arranged by Harry Wilkinson of the *Chicago Banker*, and will be run for the comfort and convenience of bankers from the west. If departure of the train is arranged according to what appears to be the prevailing sentiment, the train will arrive at Briarcliff Saturday morning, May 6, in time for two days of rest and recreation before the work of the Council begins. The reservations, which are being made rapidly, show that the party will include more ladies than ever before. It is almost superfluous to add that the train equipment will be of the very best, both for comfort and safety.

All arrangements are in charge of the following invitation committee: Arthur Reynolds, Continental & Commercial National Bank, chairman; Peter W. Goebel,

Commercial National Bank of Kansas City, Kan.; Stoddard Jess, First National Bank of Los Angeles, Cal.; W. D. Vincent, Old National Bank of Spokane, Wash.; W. G. Edens, Central Trust Company of Illinois, Chicago; H. E. Otte, National City Bank, Chicago; E. L. Matson, Scandinavian American National Bank, Minneapolis. Bankers from the southwest are making arrangements through J. S. Calfee of the Mechanics American National Bank, St. Louis.

The train committee consists of the following: Richard S. Hawes, Third National Bank, St. Louis, chairman; Nelson N. Lampert, Fort Dearborn National Bank, Chicago; S. B. Montgomery, State Savings Bank, Quincy; C. G. Hutchinson, First National Bank of Kansas City; E. M. Wing, Batavian National Bank of La Crosse, Wis.



Myron T. Herrick Condemns the Hollis Rural Credits Measure

Proposed System Would Neither Improve Land Credit
Nor Solve the Problem of Financing the Farmer—
Merely a Scheme to Subsidize a Special Class.

By HON. MYRON T. HERRICK

IF the Hollis bill should pass there would be at Washington a Farm Loan Board composed of the Secretary of the Treasury and four appointees of the President and Senate of the United States. This bureau would be charged with the duty of establishing twelve Federal land banks, and it could establish as many other such banks as it saw fit. All members and employees of the bureau would be government functionaries.

The bureau could compel the United States to supply the \$500,000 minimum capital stocks of the banks and to advance them \$6,000,000 a year. The United States and farm loan associations (hereinafter to be mentioned) would be the only shareholders who could vote. The United States would elect two of the directors of each bank; the associations, the three other directors. The shares owned by the United States would not receive dividends, while the money which it advanced would draw only two per cent. per annum.

The bonds of these Federal land banks would be made by the Comptroller of the Currency and Secretary of the Treasury, after the manner of national bank notes; and they could be issued only upon approval of the bureau and with the signature of its executive officer. The mortgages securing the bonds would be valued by public appraisers and trusted with public registrars. The bonds and mortgages would be instrumentalities of the United States Government, and, together with all the franchises and assets of the banks, would be entirely exempt from taxation. The bonds would be lawful investment for public and fiduciary funds, and eligible as security for public deposits and for paper discountable through the Federal reserve system.

Possessed of these high special privileges and absolutely dominated by government functionaries, the Federal land banks would be government institutions in every sense of the word. Investors in their shares and bonds would have a moral, if not a legal, right to look to the United States Government for the return of their money. The bonds, being issued upon the authority and certificate of Federal officials, would be divested of all their land-credit quality. They would be exactly what the bill describes them, "instrumentalities of the Government of the United States," not reflecting the value of land in the least, but resting upon the good faith and honor of the United States for their redemption.

The system proposed by Senator Hollis would not improve land credit, nor solve the problems of financing the farmer. It can lay no claim to mobilizing land

values; it is simply a scheme for subsidizing a special class and to dole out government funds and favors, regardless of taxpayers or of the rights of farmers who might not wish to borrow. Inasmuch as the bureau may establish any number of these Federal banks that it deems fit, indefinitely increase their capital stocks and authorize the issue of bonds up to twenty times their capital stocks and surpluses, there is practically no limit to the amount of obligations in which the credit of the United States might become involved.

Senator Hollis, in his report, indicates that he hopes to convert into government instrumentalities all the \$2,000,000,000 of mortgages now on record, and to keep on going until every arable tract of land in the country has been purchased, improved, stocked and equipped, and turned over to some would-be farmer at the risk and expense of the United States.

Senator Hollis proposes to launch the United States into a stupendous undertaking, indeed. No other country has brought to light such a daring and enthusiastic agrarian as the junior senator from New Hampshire. His plans are unparalleled, when one considers the possible amount of the issues and the fact that the bonds may be drawn to be paid with five per cent. interest in some future generation and be used as securities to extract deposits and advances from the Federal treasury, and that the money thus realized may be invested in loans split up into seventy-two semi-annual installments. But unbelievable as this may appear, it must not be forgotten that the Senate passed one bill and the House another bill at the last session of Congress for a similar use of the cash and credit of the United States Government.

The establishment of such public institutions as the proposed Federal land banks presents a grave constitutional question. Senator Hollis avoids this by declaring his banks to be governmental depositaries and financial agents and that their bonds and mortgages shall be instrumentalities of the Government of the United States. Whether the courts would uphold this evasive device remains, of course, to be seen. The senator justifies it by citing the Federal Reserve Act. He overlooks the fact, however, that the reserve system is not confined to a special class, like the plan of his bill; it is available for all and was established to enable the United States to exercise closer supervision over the banks and provide an elastic currency.

Its disregard of the Constitution and its state-aid features are not the only objections to the Hollis bill. It violates basic principles by its clauses permitting five- and thirty-six-year loans to be made with public and private deposits and savings. The bill, as it came from committee, gave to each Federal land bank a savings department in addition to allowing it to receive current

funds from the United States and private individuals. Yielding to protests, this clause was stricken out; but the change is only apparent. The present bill allows the banks to receive deposits from stockholders. And since anybody may be a stockholder, and the share is only \$5 and may be withdrawn under rules prescribed by the bureau, the Federal land banks would still remain savings banks, in addition to having a right to serve as government depositories.

That this "joker" was inserted to preserve the savings-bank feature is proved by the general scheme of the bill. Every applicant for a loan through the system must buy a share of stock in a Federal land bank, or join a local association formed by a Federal land bank and the Federal bureau, and buy shares in the association up to five per cent. at least of his loan. The association must buy a corresponding amount of shares in its land bank. A borrower may hold as many shares as he please. The associations must transmit to the land banks all deposits and share savings received. Thus the plan of the bill is to create a veritable network, covering the entire country, for gathering up the savings of thrift and putting them in government institutions in cities remote from the farmers and controlled by a bureau at Washington.

This is a very serious objection, and one which the people do not yet fully realize. Recent statistics show that in the United States there are deposits and savings amounting to \$4,997,706,013 in private savings banks and \$1,357,707,900 in building and loan associations. The 14,915,104 depositors and members of these banks and associations, comprising farmers and city-dwellers and constituting about one-seventh of the population, have accumulated \$6,355,413,913. They express no dissatisfaction with present conditions. This splendid system, all private and largely mutual and co-operative, surpasses in assets and profits that of the combined public and private system in any other country.

In the face of these figures, government savings banks are unnecessary in the United States. In foreign countries the highly centralized governments need funds for their warlike and other purposes, and so they have established government savings banks and they discourage private banks and associations. They compel these public institutions to buy government stock and bonds, and in this way finance the state through the savings of thrift. So far the United States has attempted this only through the creation of postal banks. The postal deposits now amount to \$65,684,708. This

slow growth of the postal banks and the enormous development of the savings banks and building and loan associations show that the American people prefer a decentralized system through which they can keep their money circulating at home. Congress ought to leave well enough alone. At any rate, it ought not to create another government system until the postal bank system has been thoroughly tested.

The Hollis bill has very little to offer the owner of farm land, in spite of its grand project to centralize the savings of the country and to utilize the cash and credit of the United States. In order to obtain a loan a farmer would have to buy shares in a Federal land bank or some loan association. The smallest share investment is five per cent. of the borrowed sum. This would cut the borrowing capacity to 45 per cent. of the value of land. In return for this he would have to enter into an agreement binding him to live upon and cultivate the mortgaged property, and not to pay off any of his loan for five years, nor to sell the property until his debt was fully extinguished, while he would be compelled to assume double or unlimited liability for any defaults of other borrowers through the system.

These clauses and restrictions would render the system useless in all the thickly settled or improved parts of the country. Moreover, their paternalistic character conveys the idea that the average borrower lacks honesty and a capacity to handle his own affairs. In devising his agrarian program, Senator Hollis has likened the American farmer to the Irish tenant and the Russian serf, and has adopted for his model the laws which in Europe have been enacted only for the lowest and most ignorant peasants.

This Hollis bill is commonly known as the Administration's rural credits measure, but the opposition which is gaining headway against it is not confined to Republicans. Dissatisfaction is being shown by senators and congressmen, irrespective of politics, in various states where there is no possibility of the system's working to any good effect. Senator Sheppard, although an ardent Democrat, delivered a speech in the Senate on March 27 in which he voiced some objections to the bill, owing to the fact that his state would be practically eliminated from its operations on account of the Texas homestead law. Senator Sheppard had become an avowed advocate of *landschafts*. The friendly interest displayed by other senators in his speech gives hope that the subject of rural credits will be viewed from all its angles before Congress takes final action.

Germany, Austria-Hungary, Belgium, Switzerland, Holland, Norway and Sweden are the only principal trading countries of the world whose exports to the United States have decreased in 1915. The seventeen other countries have increased their exports to this country.

Canada's balance of trade for the seven months ending with January is a little over \$200,000,000. The exports of domestic products totaled \$595,265,000, an increase of nearly 80 per cent. over the preceding ten months. Imports totaled \$394,093,000, an increase of \$15,046,000.

THE PROBLEM OF THE INSOLVENT FARMER IMPORTANT IN RURAL CREDITS LEGISLATION

Study of the numerous rural credits systems that are being proposed to meet the needs or the fancied needs of the farmer brings out a fact which thus far has escaped general attention. It is that notwithstanding all sorts of extraneous ideas have been loaded into these measures, the problem of taking care of the insolvent farmer apparently has been ignored. To establish a means whereby the solvent farmer can borrow is, after all, more or less of a routine problem; but no legislative machinery has yet been devised which by a stroke of the pen can change an insolvent farmer into a solvent one.

How to finance the insolvent farmer, therefore, is a problem whose answer apparently is to found only in state or philanthropic aid. This particular feature is brought out concretely by Leonard G. Robinson, general manager of the Jewish Agricultural and Industrial Aid Society, in his annual report to the directors for the year 1915. From the figures given by Mr. Robinson, it appears that only eleven per cent. of the loans made by his society during the year were on first mortgage, the majority being on second and third, and even fourth and fifth mortgage; while some were on chattel mortgage or unsecured notes. Loans of such character, of course, are entirely outside the field of any contemplated legislative enactments. In reporting on this department of the Aid Society's work Mr. Robinson says:

"By insolvent farmer, I mean the farmer who cannot give the time-honored first mortgage as security for a loan. To this class belong the struggling farmer who cannot operate his farm efficiently because his encumbrances have reached the limit of marketable security, the tenant farmer who is compelled to shift from farm to farm because he lacks the means to acquire a farm of his own, and the would-be farmer, that is, the farm-hungry man in the city.

"In spite of the claims made for the numerous bills under consideration in Congress and state legislatures, no provision whatever is made in any of these bills for the insolvent farmer. Let us assume, for example, that a man working at his trade for a number of years has managed to save up the princely sum of \$1,500. He wants to buy a farm. The price of the farm is, say \$4,000. He can raise a first mortgage for half the value of the farm. Where is he to get the remaining \$500 necessary to complete the purchase of the farm, to say nothing of the money needed for equipment? The great difficulty lies in the fact that it is not generally understood that it is impossible to devise one system of rural credits that will serve equally the solvent and the insolvent farmer. All that the solvent farmer needs is the machinery that will make it possible for him to compete on equal terms with others for the necessary credit. But the insolvent farmer, who has only marginal security to offer, cannot be financed on such basis. The only remedy is state or philanthropic aid.

"These observations are pertinent to the present discussion in that they show that whatever turn rural credits legislation may take, and no matter how farm credit facilities may improve, the problems and responsibilities of our society will remain where they are today. Neither will the demands upon us be lessened in the slightest degree, except, perhaps, in cases where we are now obliged to make an occasional first mortgage loan. The marginal character of our loans is to be seen from the fact that of the 396 loans made this year only forty-four or eleven per cent. are on first mortgage, while 186 are on second mortgage, 108 on third mortgage, thirteen on chattel mortgage, five on unsecured notes. The remaining thirteen are on purchase contract on farms bought direct from our society.

"As for the precise margin of security, our by-laws require a margin of twenty-five per cent. over and above our mortgage. Provision is made, however, for exceptions. We have seen what a large proportion of our loans are exceptional in so far as the kind of mortgage is concerned. Like exceptions will be found with respect to the margin of security. Many of our loans are in excess of the seventy-five per cent. limit. Some even exceed the value of the mortgaged property, and where our loans are not secured by mortgage, values do not figure at all. With loans decidedly marginal and security which is, to say the least, substandard, it might be expected that our losses would be heavy. As a matter of fact, they have been only trifling. In the sixteen years we have actually loaned out, as will be seen later on in this report, \$1,883,183.44. The total losses during the same period amounted to \$53,023.16, or only two and eighty-two hundredths per cent. The main reason our losses are so small is the stability of our farmers. Of course, character is an important factor. But character is impotent in the face of failure. It is stability that in the last analysis affords the best security. So long as the farmer gets an even break in his struggle to establish himself and he remains on the farm, our loans are perfectly good."

In the matter of repayment, the insolvent farmer is not such a bad risk as might be supposed, even though working on charitable aid. An analysis of loans and collections, according to the same report, shows that the society "had a total of 1,840 farm loan accounts on its books during the year. Of these, 161 were repaid in full, four merged with later loans, fifteen charged to profit and loss, fourteen foreclosed and eighteen transferred to property, leaving a total of 1,628 farm loan accounts aggregating \$980,830.06 in force as against 1,480 accounts aggregating \$978,196.62 on December 31, 1914.

"The repayments for our farmers this year amounted to \$116,097.87 principal and \$36,510.56 interest, as against \$93,022.05 and \$31,764.32 for these items respectively in 1914. These figures include only collections on accounts covering farm loans. They do not include

collections on our other accounts or on those administered by us for the Jewish Colonization Association, the Baron de Hirsch Fund and the Jewish Agriculturists' Aid Society of America.

"The increase in the interest payments on our farm loan accounts is about normal, while the repayments on account of the principal exceed our estimates by \$20,923.47. These unexpected repayments are due to the reversal in the financial situation in the country, already alluded to. The easing up of the money market enabled some of our farmers to raise larger first mortgages with which to refund all their obligations, including the repayment of our mortgages before maturity. In some sections where the greatest financial stringency prevailed a year ago, and farm mortgages were unobtainable or obtained only with the greatest difficulty, there is now a plethora of money, and bankers and private investors are only too glad to lend it out on farm mortgages. Gratifying as the situation may appear on its face, these conditions are not without grave possibilities. These mortgages are largely demand or short-term mortgages. Should a financial stringency such as that of last year recur, many of these mortgages will be called in and many a solvent farmer, whose security is gilt-edged and who meets his obligations promptly, will be forced to the wall. The call loan may have its functions, but not on the farm. It is this fast and loose financial game,

to which our farm industry is subjected, that makes the reorganization of rural credits in the United States most imperative."

In its general bearing on the whole subject of rural credits the society's attitude towards the purposes for which loans are to be used is also of interest. According to Mr. Robinson, the new farmer not only needs credit but assistance in the use of credit; and by having his disbursements properly directed he is able to use the loan to the best advantage. The purposes for which the year's loans granted by the Aid Society were employed are shown in the following table:

PURPOSE	NUMBER	PER CENT.
Purchase of farm.....	30	8
Purchase of equipment.....	130	33
Construction or repair of buildings..	54	14
Paying off of mortgages or other debts	168	42
Working capital.....	14	3
Total	396	100

In spite of a year marked by financial obstacles and conditions that made its work doubly difficult, the Jewish Agricultural Aid Society managed to take care of all worthy loan applications. How this was done is shown by the fact that there was an increase of twenty-one per cent. in the number of loans and of only eleven per cent. in amount.

FARM LOANS BY BANKS AND INSURANCE COMPANIES

In a speech before the House Banking and Currency Committee last month on rural credits Grant S. Youmans, special legislative representative of the North Dakota State Union of the American Society of Equity, gave some interesting figures on farm loans by banks and insurance companies, interest, commission charges,

etc. The data given are of a type not usually met with in rural credits discussions and are worth attention. In the first table which follows the several geographic divisions were elaborated by Mr. Youmans in a separate compilation by states, which for reasons of space is here omitted.

Farm loans by banks and insurance companies
(Figures represent thousands of dollars.)

Geographic divisions ¹	Value of farm land and buildings. ²	Estimated total farm mortgage debts. ³	Farm mortgages held by insurance companies. ⁴	Farm mortgages held by banks. ⁵	Personal and collateral loans by banks to farmers. ⁶	Farm mortgages "handled" by bank. ⁶
New England.....	\$718,545	\$80,544	\$1,702	\$84,900	\$16,890	\$10
Middle Atlantic.....	2,442,949	313,156	556	30,900	67,400	2,040
East North Central.....	8,873,992	944,436	121,075	220,000	325,030	123,360
West North Central.....	11,614,666	1,375,903	426,960	216,400	588,120	282,710
South Atlantic.....	2,486,436	153,155	22,930	40,800	151,220	19,920
East South Central.....	1,738,398	127,135	22,871	33,600	76,530	4,710
West South Central.....	3,128,597	299,614	72,685	27,900	204,310	18,750
Mountain.....	1,319,397	101,285	12,532	19,800	86,650	17,300
Pacific.....	2,478,146	203,757	14,225	65,200	93,820	17,780
Total.....	\$34,801,126	\$3,598,985	\$695,536	\$739,500	\$1,609,970	\$486,580

¹ Statistics by states are given in a detailed table.

² Thirteenth Census figures.

³ Estimates based on Thirteenth Census figures, assuming that the ratio between the mortgage debt on farms operated by their owners and the total value of all such farms holds good for tenant farms also.

⁴ Figures actually reported (in October, 1915) by 220 life insurance companies, comprising five-sixths of the total number in the United States and having more than 99 per cent. of the total admitted assets.

⁵ Estimates based on reports received from banks in the spring of 1914.

⁶ Farm mortgages negotiated by banks or bank officials as agents or correspondents for other investors. Estimates based on reports received from banks in the spring of 1914.

Interest, commission charges, and other data

[Data obtained in 1915, but representing normal conditions, such as prevailed before the European war.]

Geographic divisions and states	Farm mortgage loans				Short-time loans					
	Average interest rate	Average annual commission ¹	Interest plus commission	Average term, years	On personal security			On collateral security		
					Average interest rate	Average total cost ²	Average term, months	Average interest rate	Average total cost ²	Average term, months
New England:										
Maine.....	6.1	0.1	6.2	4.0	6.5	7.7	7.5	6.5	8.0	9.8
New Hampshire.....	5.3	(³)	5.3	7.0	6.0	6.4	8.7	6.2	6.6	8.8
Vermont.....	5.6	(³)	5.6	4.9	5.9	6.4	5.9	5.8	7.2	8.0
Massachusetts.....	5.6	(³)	5.6	4.1	6.0	6.5	5.7	6.1	6.1	5.3
Rhode Island.....	5.7	.2	5.9	3.2	6.1	7.1	8.0	7.2	8.4	7.3
Connecticut.....	5.7	(³)	5.7	1.7	5.9	6.2	5.1	5.8	6.4	7.5
Middle Atlantic:										
New York.....	5.5	.1	5.6	5.7	5.9	7.0	7.1	5.9	7.2	8.7
New Jersey.....	5.5	.3	5.8	2.7	5.8	6.6	5.9	5.9	7.0	7.9
Pennsylvania.....	5.5	.3	5.8	3.9	5.9	6.9	6.9	5.9	7.2	8.0
East North Central:										
Ohio.....	5.9	.2	6.1	4.0	6.4	7.2	7.9	6.6	7.5	8.5
Indiana.....	5.8	.4	6.2	4.9	6.9	7.6	7.1	7.0	8.6	8.4
Illinois.....	5.7	.3	6.0	4.8	6.6	7.4	6.4	6.7	8.3	8.5
Michigan.....	6.3	.3	6.6	4.9	7.1	9.2	6.5	6.9	9.8	8.6
Wisconsin.....	5.7	.1	5.8	4.9	6.5	7.0	7.2	6.6	7.1	9.1
West North Central:										
Minnesota.....	6.3	.5	6.8	5.1	8.3	9.2	7.0	8.5	9.4	8.5
Iowa.....	5.6	.3	5.9	5.1	7.5	7.9	7.2	7.5	8.1	9.0
Missouri.....	6.2	.6	6.8	4.7	7.7	8.8	6.4	7.6	9.0	8.0
North Dakota.....	6.9	1.8	8.7	5.0	11.0	11.8	7.5	11.0	12.1	8.7
South Dakota.....	7.0	1.0	8.0	4.8	9.8	10.6	6.7	9.7	10.5	7.8
Nebraska.....	6.3	.8	7.1	4.9	8.8	9.3	5.8	9.0	9.6	7.2
Kansas.....	6.1	.8	6.9	5.1	7.5	8.8	5.3	8.3	9.0	6.7
South Atlantic:										
Delaware.....	5.6	(³)	5.6	4.6	6.0	6.2	5.9	5.8	5.8	8.7
Maryland.....	5.7	.4	6.1	3.3	6.0	7.0	6.4	6.0	7.0	7.8
Virginia.....	6.1	.7	6.8	3.3	6.3	8.2	7.1	6.4	8.5	9.0
West Virginia.....	6.2	.2	6.4	2.4	6.2	6.9	7.1	6.3	7.2	7.1
North Carolina.....	6.3	1.4	7.7	2.5	6.6	10.2	8.1	6.7	10.6	8.4
South Carolina.....	7.8	.6	8.4	2.9	8.3	10.5	7.6	8.5	10.9	8.6
Georgia.....	7.6	1.1	8.7	4.3	9.6	11.8	7.7	10.1	12.3	8.1
Florida.....	9.0	.6	9.6	1.8	9.2	11.4	7.1	9.5	11.2	8.1
East South Central:										
Kentucky.....	6.7	.4	7.1	2.6	7.3	8.8	8.2	7.5	9.1	9.2
Tennessee.....	7.3	.6	7.9	3.3	8.1	9.9	8.0	8.4	10.2	9.2
Alabama.....	8.7	.7	9.4	2.8	10.0	12.4	9.1	10.0	12.8	9.8
Mississippi.....	8.0	.5	8.5	2.7	8.7	10.8	9.5	8.6	11.5	9.6
West South Central:										
Arkansas.....	9.0	.6	9.6	3.5	9.9	12.4	8.1	10.6	13.3	9.1
Louisiana.....	8.2	.4	8.6	3.1	9.0	11.1	9.1	8.7	11.1	10.0
Oklahoma.....	6.6	1.8	8.4	5.4	12.5	15.6	5.6	13.6	16.7	6.4
Texas.....	8.4	.6	9.0	4.6	10.2	12.2	6.4	10.4	13.1	7.4
Mountain:										
Montana.....	8.4	1.6	10.0	4.8	11.1	12.1	6.1	11.0	12.6	7.8
Idaho.....	8.2	.7	8.9	4.9	10.4	11.5	5.2	10.2	11.8	6.9
Wyoming.....	9.2	.8	10.0	3.5	10.2	11.0	6.5	10.0	10.7	7.4
Colorado.....	8.3	.6	8.9	4.1	10.6	11.5	5.5	10.4	12.2	7.8
New Mexico.....	9.7	.8	10.5	3.2	11.4	13.8	5.2	11.3	13.5	6.9
Arizona.....	9.1	.3	9.4	2.4	10.0	11.1	8.8	10.0	12.3	8.8
Utah.....	8.6	.4	9.0	5.0	8.8	10.4	7.2	9.5	10.6	8.3
Pacific:										
Washington.....	7.9	.8	8.7	4.3	9.8	11.4	5.8	10.0	11.9	8.2
Oregon.....	7.7	.3	8.0	3.9	8.4	9.6	6.6	8.6	9.8	8.5
California.....	7.4	.2	7.6	3.2	8.4	9.4	6.4	8.4	9.4	7.7

¹ Where the reports show a commission paid once for all in advance on a loan running more than a year, the equivalent annual commission is used.² Including commissions and all extra charges.³ Less than one-tenth of 1 per cent

History of the Mexican National Debt Shows No Obligation Repudiated

Since 1823, When the Old Spanish Debt Was Assumed as a Matter of Honor, All Maturing Loans Have Been Paid Off or Refunded on Steadily Improving Terms—Peak of Financial Standing Reached in 1910.

By T. W. OSTERHELD

THROUGHOUT the history of Mexico, its struggles, civil strife and revolutions, one great dominant factor has become an empiric law of that Republic, namely, never to repudiate its material debts and the insistence by the central government that each state fulfil the obligations which it may have contracted.

The greatest proof of this statement and the integrity of the Mexican Republic will be found in the

history of its first two loans, where the Republic in assuming the responsibility of the Spanish debt received \$11,000,000 for a \$30,000,000 loan, paid \$29,500,000 for the service of the loan and finally, in 1890, extinguished this debt by the payment of over \$62,000,000. There have been defaults of interest during periods in which revolution or intervention existed, but examination of the various conversions and refundings of the debt shows payments to have been made with a strict adherence in every instance to the rights and equities of the creditors. In fact, such payments were often to the detriment and serious injury of her own subjects, as instanced by the French occupation in 1864, the prime cause of which may be traced back to Mexico's first loan in 1823, contracted to pay the liabilities of the Spanish government prior to her own independence.

Not alone has Mexico struggled with defaults of interest, but also with the gradual depreciation of silver, until the Mexican peso, originally valued at four shillings, became so lowered in value that the interest and refunding charges more than doubled on the service of the foreign debt. Notwithstanding all difficulties the recuperative powers of Mexico have always been effective and quick, as her growing wealth showed during the presidency of Porfirio Diaz. Through the ownership of her entire railroad systems, telegraphs and public works, acquired since the prior revolution under Diaz, aided by the development of the great oil fields and mining indus-

TABLE A—Exterior Debt of Mexico in 1916

	Original	Present	Total
5 per cent. external gold loan of 1899.....	£22,700,000	£9,957,290	
Coupons in arrears July 1, 1914, to January 1, 1916, inclusive.....		871,262	£10,828,552
4 per cent. external gold loan of 1904.....	8,230,452	7,620,773	
Coupons in arrears June 1, 1914, to December 1, 1915, inclusive.....		609,662	8,230,435
City of Mexico, sterling loan, 5 per cent. of 1889.....	2,400,000	1,385,500	
Coupons in arrears April 1, 1914, to January 1, 1916, inclusive.....		188,550	1,524,050
4 per cent. external gold loan of 1910, total amount £22,200,000 (of which there has been issued)....	11,100,000	10,563,780	
Coupons in arrears July 1, 1914, to January 1, 1916, inclusive.....		845,102	11,408,882
6 per cent. 10-year treasury bonds of 1913, total amount £20,000,000 (of which there has been issued).....	6,000,000	6,000,000	
Coupons in arrears January 1, 1915, to January 1, 1916, inclusive.....		540,000	6,540,000
TOTAL.....	£50,430,452		£38,531,919

Specific guarantee of interest and charges due on National Railways of Mexico, 4 per cent. general mortgage, due October 1, 1977. (U. S. currency)... \$6,089,829

Interior Debt of Mexico

	Increase or Decrease 1912-1913	Outstanding June 30, 1913
Payable in Silver Currency.		
3 per cent. consolidated internal loan	—\$384,990.00	\$42,530,925.00
5 per cent. redeemable loan, series 1 to 5.....	— 181,000.00	91,219,400.00
Monterey & Mexican Gulf R. R. bonds.....		2,000.00
Vera Cruz & Pacific R. R. bonds.....		60.00
Vera Cruz Port Works bonds.....		25.00
Kansas City & Oriental R. R. script.....		445,400.00
TOTAL.....	—\$565,900.00	\$134,197,810.00
Amount of interest coupons on 3 per cent. due to 1916 (approximate).....		\$2,551,846.00
Amount of interest coupons on 5 per cent. due to 1916 (approximate).....		9,121,940.00
Estimated internal floating debt.....		25,000,000.00

TABLE B—First Financial Statement of the Republic—1823 (\$5 = £1 Sterling)

Debt prior to independence.....	\$27,090,606.00
Interest on this debt.....	9,765,799.00
Loans without interest.....	3,297,153.00
Debt contracted for independence.....	5,384,589.00
Supplementary loans.....	571,964.00
TOTAL.....	\$46,110,111.00
Less credits of nation.....	1,395,549.00
TOTAL.....	\$44,714,562.00

TABLE C—Statement of 1861 (\$5 = £1)

EXTERIOR DEBT—	
Account of capital.....	\$51,208,250.00
Interest due.....	11,000,000.00
TOTAL.....	\$62,208,250.00
INTERIOR DEBT—	
Acknowledged debt, commission of credit.....	\$27,470,100.00
English convention.....	\$4,475,000.00
Padre Moran.....	525,000.00
	5,000,000.00
Spanish Convention.....	6,680,000.00
French Convention.....	200,000.00
Interest on the interior debt calculated up to 1855	2,491,395.00
Floating debt.....	17,000,000.00
1856 to date, interior debt.....	60,000,000.00
TOTAL.....	\$181,049,745.00
TOTAL DEBT PAID.....	24,000,000.00
TOTAL REMAINING.....	\$157,349,745.00

tries, it is safe to state positively that her recovery from present conditions will be vastly quicker and more substantial than in the period under Porfirio Diaz and his brilliant finance minister, Mr. Limantour. If it is true, as Lord Beaconsfield stated, that "Character is destiny in the individual," then the past actions and work of the Mexican economic units will give to that nation a future destiny of prosperity and progress as great as that of any nation of our continent. Moreover, it is unnecessary to fear any repudiation of debt or interest contracted by her past, present or future executives.

For a better understanding of the different issues of the Mexican debt and the various conversions and refundings, they are classified into three distinct historical periods: first, the period preceding the 1885 consolidations of all prior debts; second, that of 1885 to 1910, ending in the conversion of the 1899 five per cent. gold loan into the four per cent. of 1910; and the period of 1910 to the present date, which includes in its scope the loan of President Madero, the issue of the ten year six per cent. gold notes of 1913 by General Huerta and the issue by the present *de facto* government of General Carranza, of paper currency in amount equal to \$250,000,000 with an approximate market value of \$5,000,000 gold. This value fluctuates daily.

The Period Prior to 1885

The independence of Mexico was declared in 1810 and the war continued until 1821, under Gen. Agustin Iturbide, when the new government became established. It assumed, in 1823, the debt of the previous Spanish government of \$27,000,000 and accrued interest of about \$980,000. This is the debt which through many years accumulated and ultimately became known as the English debt. For the purpose of making a settlement the Mexican government issued in England in 1824, through Messrs. Goldsmith, £3,200,000 five per cent. gold bonds at 58 and in 1825, through Barclay, Richardson & Co., £3,200,000 six per cent gold bonds at 89¾. In 1839 this debt reached £9,247,378, bearing five per cent.

TABLE D—Statement of the Treasury
1869-1870

Bonds of 1850.....	\$7,000,000.00
Bonds, 5 per cent. and 3 per cent.....	734,619.82
Differentiated credits.....	12,000,000.00
Bonds of September 12, 1862.....	1,504,747.20
Liquidating commission.....	2,984,242.16
Bonds, San Carlos Taumalipas.....	2,508,482.25
Debt of Laguna Seca.....	287,534.22
Deficiency, 44th economic year.....	1,635,730.84
Deficiency, 45th economic year.....	2,180,974.45
General treasury warrants.....	56,211.35
(Law, October 14, 1850), London, 9 bonds.....	51,208,250.00
Coupons of said debt.....	19,971,217.50
Bonds of the Convention, December 4, 1851.....	3,302,468.18
Padre Moran debt, 1851.....	746,780.00
Spanish debt.....	7,163,086.93
Bonds, Lizard & Co., certificates, London.....	2,500,000.00
	<hr/>
Damages recognized.....	\$115,784,344.90
	4,587,125.04
	<hr/>
Interest at 3 per cent.....	\$120,371,469.94
	3,611,144.09
	<hr/>
Repaid from 1869 to 1885.....	\$123,982,614.03
	64,618,285.00

interest. In 1846 an arrangement was reached by which certain internal bonds and the five per cents. were consolidated into £10,241,650 five per cent. interest bearing bonds. Witness the constant growth of the original assumed debt, even when interest and payment on capital had been made. After the war with the United States, in 1850, the government converted the prior debt into three per cent. bonds by an agreement to pay the arrears of interest by a proportionate amount of the indemnity received of the United States on account of the cession of the new territory in the west. In 1863 the arrears of interest had reached £2,918,870.

In 1864 the French established the Imperial Government with Maximilian as emperor, issuing a loan of £4,864,800, default of which was made in 1867, but was included in the conversion of the English debt of 1886 in London. In the same year the six per cent. Maximilian loan was issued in the amount of £12,365,000 at 64, for the purpose of upholding the Imperial Government against the constitutional government of Mexico. This loan in 1865 was converted into a £20,000,100 imperial lottery loan, interest ceasing in 1866. On the re-establishment of the Republic in 1867 both these loans were refused payment, having been contracted to drive out of Mexico its own constituted government. However, sufficient funds were at hand to pay on the first loan £29½ and on the second £44½ per bond. A further small sum became devisable in 1915. Under

TABLE E—Total Public Debt of Mexico—1885
(Approximate)

*Debt of London.....	\$69,958,875.00
Cabralal bonds.....	227,375.88
*English Convention.....	5,836,441.10
*Spanish Convention.....	4,658,082.77
Padre Moran.....	554,242.42
Interior debt.....	24,810,197.12
American debt.....	975,124.00
Deficiency of Government.....	20,000,000.00
Subvention and contracts.....	24,000,000.00
	<hr/>
TOTAL.....	\$151,020,138.29

*Mexican dollar = 4 shilling.

TABLE F—Statement of the Debt of Mexico, Exterior
and Interior up to June 30, 1896

Old London debt not fully converted.....	\$134,153.12
Exterior debt.....	*109,087,500.00
Interior debt converted represented by the 3 per cent. bonds of 1886.....	51,676,425.00
Bonds of the interior 5 per cent. silver, first series, issued in accordance with the law of September 6, 1894.....	19,985,800.00
Bonds of the interior debt 5 per cent. silver, second series, issued in accordance with the law of the 10th of December, 1895.....	914,500.00
Certificates of advances in accordance with the presidential orders of May 28, 1886, and November 10, 1888.....	329,221.91
Unpaid balance of expenditures from July 1, 1882, to date.....	1,213,232.45
Special bonds issued by the treasury in favor of various railroads and their public works.....	9,790,025.00
Credit in favor of the railroads up to June 30, 1896, which are payable in cash, bonds or certificates and are admissible for import duties.....	7,721.17
Obligations and credits due to running account.....	106,931.63
	<hr/>
Total of the various credits of the interior and exterior *debt which latter must be calculated at \$5.00 per pound sterling in order to make conversion in Mexican currency for comparative purposes.....	\$193,245,510.28

TABLE G—Statement of the Federal Debt at the End of the Year 1900–1901. Debt Payable in Foreign Money at \$5.00 for Each Pound Sterling

	Capital	Interest Not Collected	Total
5 per cent. bonds of 1888.....	\$35,200.00	\$3,879.00	\$39,079.00
Bonds of 1890.....	5,300.00	1,638.00	6,938.00
Bonds of 1893.....	1,600.00	565.50	2,165.50
Mortgage bonds of the railway of Tehuantepec.....	7,500.00		7,500.00
Bonds of the 5 per cent. of 1899.....	112,398,300.00	1,455,600.00	113,853,900.00
Provisional certificates of the 5 per cent. of 1899.....		1,037.50	1,037.50
SUM TOTAL OF THE DEBT PAYABLE IN FOREIGN MONEY.....	\$112,447,900.00	\$1,462,723.00	\$113,910,620.00
DEBT PAYABLE IN MEXICAN SILVER:			
Bonds which draw interest—			
Bonds of the consolidated debt of 1885, 3 per cent.....	\$49,565,375.00	\$856,086.64	\$50,415,461.64
Bonds of the 5 per cent. silver, first series.....	19,714,300.00	39,194.48	19,753,494.48
Bonds of the 5 per cent. silver, second series.....	19,661,600.00	58,257.50	19,858,020.00
Bonds of the 5 per cent. silver, third series.....	19,828,200.00	29,820.00	19,858,020.00
Bonds of the 5 per cent. silver, fourth series.....	14,433,800.00	1,302.50	14,435,102.50
Bonds of the port of Vera Cruz.....	25.00		25.00
Bonds of the Monterey & Gulf Railway.....	45,000.00	810.00	45,810.00
Bonds of the docks of Tonala.....	7,000.00		7,000.00
Bonds of the railroads Pachuca, Zaculpan & Tampico.....	3,000.00		3,000.00
Bonds of the railroads of Tula, Pachuca & Tampico.....	42,000.00		42,000.00
Bonds of the branch railroad of Oaxaca.....	9,260,000.00		9,260,000.00
Bonds of the railroad of Vera Cruz & Pacific.....	1,969,500.00		1,969,500.00
TOTAL OF BONDS PAYABLE IN SILVER.....	\$134,529,800.00	\$979,471.12	\$135,509,271.12
DEBTS WHICH PAY NO INTEREST:			
Floating debt—			
Certificates of advances from July 1, 1882, until June 30, 1894.....	\$229,810.75		\$229,810.75
Balances due on expenditures from July 1, 1895, until the 31st of October of the same year.....	2,785.45		2,785.45
Balances not paid which are payable in cash due to expenditures of 1895–1896 to 1900–1901.....	804,140.64		804,140.64
Various balances pending collection, according to the decrees regulating the public debt.....	260,228.54		260,228.54
SUM TOTAL OF THE ENTIRE DEBT PAYABLE.....	\$1,296,965.38		\$1,296,965.38
SUMMARY			
*Debt payable in gold at the exchange rate of \$5.00 per pound sterling.....			\$13,910,620.00
Debt payable in silver—			
Claims which are payable with interest.....			135,509,271.12
Claims which do not gain interest.....			1,296,965.38
TOTAL OF THE DEBT.....			\$250,716,856.50

the authority granted General Cabral by President Juarez, the Woodhouse seven per cent. \$30,000,000 was annulled by the government, owing to the failure of the contracting house.

On September 11, 1863, through the house of J. W. Corliss & Co. of New York, General Juarez, after the annulment of the prior contract, issued \$2,950,000 seven per cent. gold bearing bonds. All of these were repaid, the last fraction being included in the conversion of June 22, 1885. A small amount of these bonds was never presented for conversion.

From 1885 to 1910

The period of 1885 to 1910 shows best the possibilities of Mexico, the earnestness of its desires to pay its creditors in full and the effective growth when normal conditions prevail.

On June 22, 1885, the law became effective by which all the prior debts of the Republic were consolidated into the three per cent. interior silver bonds, except the floating debt and the old English debt, which now had reached \$69,958,670. In June, 1886, with the approval of the bondholders and the Mexican representative, Gen. F. Mena, this debt was converted into three per cent. and redeemed in accordance with the contract out of the proceeds of the loan of 1888. The Mexican consolidated loan of £10,500,000 six per cent. gold loan of 1888 had

for its primary object the payment of the interest-bearing floating loan and to comply with the redemption clause of the three per cent. English loan of 1886. This loan is included in the conversion of the five per cent. gold loan of 1899.

In 1889, to complete the building of the Tehuantepec Railroad, a five per cent. loan of £2,700,000 was authorized, which loan was included in the conversion of 1899. In order to obtain funds for the Monterey and Mexican Gulf Railroad an issue of \$6,700,000 of six per cent. silver currency bonds was sold at 65 and afterwards converted into five per cent. internal redeemable stock of the same road. In 1890 and 1893, for the purpose of paying off and consolidating the different subventions granted for railway construction, the government, in 1890, made a six per cent. gold loan of £6,000,000 and £2,594,720, both of which were included in the 1899 conversion. In 1894 the Congress of Mexico granted authority for a five per cent. silver internal issue in five series in a total amount of \$100,000 silver, for the purpose of subventions, public work and the redemption of other outstanding interior obligations. In 1899 the Mexican government consolidated the prior six per cent. gold loans of 1888, 1889, 1890, 1893 into an authorized issue of £22,700,000 five per cent. gold bonds, of which £10,433,820 were redeemed out of the proceeds of the four per cent. gold loan of 1910. This five per cent. loan

is secured by sixty-two per cent. of the national import and export duty and redeemable in forty-six years, applicable semi-annually. For the purpose of public improvements in the City of Mexico, the city contracted a loan in London of £2,400,000, which under the law of March 26, 1903, became a national obligation.

The four per cent. external gold loan of 1904, authorizing \$40,000,000 American gold, was applied to the redemption of \$12,500,000 treasury gold notes of 1905, \$600,000 treasury notes of 1906, \$9,213,500 silver, six per cent. subventions of Mexican Southern Railway, subvention of Vera Cruz and Pacific Railway, and \$5,909,-

500 for the redemption of certain amounts of silver certificates issued for the construction and exploitation of the Tehuantepec Railway, harbor of Coatzacoalcas, Salina Cruz, Vera Cruz and Manzanillo. In 1910 Mr. Limantour desired to convert the 1899 issue of the five per cent. into a four per cent. issue of gold bonds in Paris, and had already placed one-half of this amount with the bankers at 97.625 and the other half optioned when the first Madero revolution put a stop to the issuance of the second half.

This latter loan reflects the highest point of financial standing reached by the Mexican government, a

TABLE H

1892		
(Manuel Romero—1892, Mexican Dollar = 32½ Pennies)		
Exterior debt in silver.....	\$141,476,781.60	= £96,160,000
Interest.....	8,275,906.21	= 5,625,030
Debt payable in silver.....	41,523,725.00	
Interest.....	1,414,879.25	
Floating debt.....	36,231,835.78	
Interest.....	450,298.36	
	\$229,373,426.20	
Final converted interior debt of 3 per cent.....		\$76,063,100
1900		
Exterior debt, capital.....	\$112,447,900.00	
Coupons not paid.....	1,462,720.00	
	\$113,910,620.00	
Interior debt.....	134,529,800.00	
	979,471.12	
	\$135,509,271.12	
Floating debt.....	1,296,965.38	
TOTAL.....		\$250,716,856.50
1904		
Foreign Debt Expressed in Gold (\$5 = £1 Sterling)		
Foreign debt.....	\$138,866,100.00	
Interest.....	1,557,941.20	
	\$140,424,041.20	
Interior debt.....	\$143,694,340.42	
	1,091,184.72	
	144,785,525.14	
Floating debt.....	118,212.81	
Current debts not collected.....	47,604.04	
	2,785.45	
	96,968.42	
	102,654.48	
	668,433.52	
	255,228.39	
	\$286,501,453.45	
EXAMPLE OF COMPARISON		
	Old	New
Bonds of 1888.....	\$18,200.00	\$35,541.09
Bonds of 1899.....	110,497,900.00	215,781,009.32
Obligation treasury 4½ of 1903.....	12,500,000.00	25,100,401.60
Obligation treasury 4½ of 1904.....	6,000,000.00	12,048,192.77
Municipal Mexico 5 per cent.....	9,841,000.00	19,217,575.26
In 1905 the difference between the Mexican currency and dollar was made 75 cent grains of gold for each peso; prior, 4 shillings = 1 peso, 1 dollar gold, June 30, 1904. Remarks applicable from 1823 to 1904 in comparing the national debt.		
1905		
Exterior debt.....	\$313,237,353.32	
	3,110,363.74	
	\$316,347,717.06	
Interior debt.....	\$129,550,002.77	
	2,307,731.81	
	\$131,857,734.58	
Floating debt.....	895,707.62	
TOTAL.....	\$132,753,442.20	
Prior certificates, floating debt.....	7,009.99	
1906		
Exterior debt.....	\$310,338,969.88	
	3,187,570.28	
TOTAL.....	\$313,526,540.16	
1907		
Interior debt.....	\$130,892,100.00	
	1,481,320.54	
	132,373,420.54	
Floating debt.....	860,494.81	
TOTAL.....		\$446,760,455.51
1908		
Coupons.....	\$307,333,121.55	
	3,182,457.00	
	\$310,515,578.55	
Interior debt.....	131,962,325.00	
Coupons.....	1,328,675.52	
	\$133,291,000.52	
Floating debt.....	724,132.92	
TOTAL.....		\$444,530,711.99
June 30, 1908		
Exterior debt, 1908.....	\$304,226,204.93	
	3,136,430.48	
	\$307,362,635.41	
Interior debt.....	132,607,760.00	
	1,129,114.88	
	\$133,736,874.88	
Floating debt.....	465,223.20	
TOTAL.....		\$441,564,733.49
June 30, 1909		
Exterior debt.....	\$300,950,996.20	
Coupons.....	3,127,562.26	
TOTAL.....	\$304,078,558.46	
Interior debt.....	\$137,849,135.00	
Coupons.....	1,039,973.37	
TOTAL.....	138,889,108.37	
Floating debt.....	368,679.10	
	\$443,336,345.93	
June 30, 1910		
	Capital	Interest
Foreign debt.....	\$300,524,996.02	\$297,411,083.52
Interior debt.....	137,850,133.71	136,781,760.00
Floating debt.....	273,398.73	1,068,373.71
TOTAL.....	\$438,648,528.46	
1911		
	Capital	Interest
Foreign debt payable in gold, June 30, 1911.....	\$302,977,624.12	\$301,176,364.95
Interior debt payable in December, 1911.....	136,726,367.42	135,668,935.00
Floating debt.....	482,574.71	1,057,432.42
TOTAL.....	\$440,186,566.25	
June 30, 1912		
Foreign debt.....	\$315,360,584.69	
Interior debt.....	134,763,710.00	
Coupon No. 1.....	1,739,729.98	
Interior debt coupon.....	1,096,283.79	
TOTAL.....	\$452,950,308.46	

standing which no doubt will be re-established in the next two years. It had become difficult for the Madero government in 1912 to negotiate \$20,000,000, and in 1913 appeared the last exterior loan of the Federal Government of Mexico, in the form of six per cent. ten year gold notes in an authorized amount of £20,000,000 (\$97,000,000 gold and its equivalent in other currencies), secured by thirty-eight per cent. of the total proceeds of the duties which by the budget law are designated as duties of importation and exportation without preference to anyone. Of the authorized amount, £6,000,000 was issued, a large balance of the remainder was made a basis of circulation for bank notes in Mexico, approximately \$27,500,000 Mexican currency, and to secure the six per cent. notes of the National Railways of Mexico in an amount equivalent to \$1,014,970 in American money. In 1914 this and all other national debts, as

well as state and municipal, defaulted, excepting some few local railway bonds, such as those of the United Railways of Yucatan.

The National Railways of Mexico

Guarantee, \$72,613,116.23 United States currency, four per cent. gold bonds, guaranteed, due October 1, 1977.

Through many years Mexico had paid millions of dollars in subventions for the building of her railroads, and as a result a great system and network of roads had been established.

Mr. Limantour, realizing the importance of controlling the railways, gradually acquired for his government sufficient shares by March 28, 1908, to enable the government to assume control of the entire railway system under the name of the National Railways of Mexico. By this merger the Mexican government guaranteed the issue of the four per cent. gold bonds of 1977 unconditionally both as to principal and interest and received

TABLE I—Total Receipts and Expenditures of Federal Government from Beginning of Independence to Present Date in Mexican Currency

From 1822-1823 to 1869-1870				
Total income.....				\$861,587,605.33
Liquid income.....				768,831,174.32
Net income.....				501,949,970.01
Deficiency, 1869.....				1,635,730.84
From 1822 to 1842				
Average expenses.....				\$17,732,393.00
Average receipts.....				17,726,174.00
From 1869-1870 to 1885				
Total income.....				\$328,273,000.00
Total expenditures.....				400,575,000.00
Deficiency.....				72,302,000.00
Income	Expenditures	Surplus	Per cent.	
1895-96.....	\$50,521,470.42	\$45,070,123.13	\$545,347.29	12.09
1896-97.....	51,500,628.75	48,330,505.25	3,170,423.50	6.55
1897-98.....	52,697,984.55	51,815,285.66	882,698.89	1.70
1898-99.....	60,139,212.84	53,499,541.94	6,639,670.90	12.41
1899-1900.....	64,261,076.39	57,944,687.85	6,316,388.54	10.90
	62,998,804.63	59,423,005.75	3,575,798.88	6.02
	66,147,048.72	63,081,513.73	3,065,534.99	4.86
	76,023,416.11	68,222,522.20	7,800,893.91	11.43
	86,473,800.94	76,381,643.22	10,092,157.72	13.22
	92,083,886.66	79,152,795.80	12,931,090.86	16.33
	101,972,623.70	79,466,911.68	22,505,712.02	28.32
	114,286,122.03	85,076,640.51	29,209,481.54	34.33
	111,771,867.08	93,177,441.17	18,594,426.21	19.95
	98,775,510.79	92,967,393.31	5,808,117.48	6.23
	106,328,485.10	95,028,650.57	11,299,834.53	11.89
1910-11.....	111,142,401.91	100,913,923.76	10,228,478.15	10.14
1911-12.....	105,203,086.96	985,953.00	8,217,133.00	.....

1912-1913, \$120,958,902—\$110,781,871.....	\$10,177,031
1913-1914.....	No data available
1914-1915, estimated.....	\$145,957,000
	152,204,898
Deficit estimated.....	\$6,247,898
Population in 1900, 12,629,825	
Debt in 1900, per head.....	\$17.66
Population in 1910, 15,160,369	

EXTRAORDINARY EXPENDITURES, 1912

North American Dredging Co.....	\$232,992.00
1912 treasury obligations.....	20,515,650.00
Payments made under various decrees.....	21,802,073.00
	\$42,550,725.00
Met by sale of 5 per cent. silver bonds.....	232,992.00
Draft—London and Paris, £1,075,000; Paris, 27,000,000 F.....	20,903,759.00
Cash in hand.....	21,802,073.00
	\$42,938,824.00
Surplus, 1913—\$388,109.	
Estimated deficit to 1916, \$24,000,000; interior debt, about \$12,000,000 gold.	
End of 1914, 8d to 9d—silver pesos (London price).	
End of 1915, silver pesos—44 cents gold.	
Treasury balance, 1911—\$64,671,595.56	
Treasury balance, 1912—\$55,286,543.75	

TABLE J—State Debts (Mexican Currency)

Mexican Peso = \$.4984 U. S.

The States of Aguas Calientes, Guanajuato, Nuevo Leon, Sonora and Tlaxcala Report no Public Debt.

State of Campeche.....	\$174,307.69
State of Coahuila.....	1,504,000.00
City of Saltillo.....	*251,864.16
State of Chiapas.....	166,000.00
State of Chihuahua.....	*1,115,331.51
St. Durango.....	2,568,550.64
Jalisco Exterior, \$2,500,000.00 at .4984.....	5,016,051.36
Silver.....	758,214.73
TOTAL.....	\$5,774,266.09
State of Mexico.....	39,247.26
Michoacan.....	623,359.23
Morelos.....	492,000.00
State of Puebla.....	144,086.00
City of Puebla.....	3,500,000.00
Queretaro.....	762.28
San Luis Potosi.....	*3,936,000.00
Senalca.....	24,550.00
Tabasco.....	11,399.00
Municipal debt of Tabasco.....	3,037.00
City of Tampico.....	105,000.00
State of Tamaulipas.....	1,618,100.00
City of Tampico.....	878,100.00
State of Yucatan.....	1,000,000.00
*Exterior debt.	484,081.13

EXPENDITURES IN NORMAL TIMES (MEXICAN CURRENCY)

	Expenditures	Income
Aguas Calientes.....	\$378,436.10	\$445,036.30
Campeche.....	424,885.46	482,801.16
Coahuila.....	990,240.00	2,451,740.96
Colima.....	324,130.69	280,525.63
Chiapas.....	1,007,826.24	965,100.73
Chihuahua.....	2,228,371.37	2,743,028.91
Durango.....	1,521,630.10	1,247,160.06
Guanajuato.....	2,243,017.92	2,464,858.17
Guerrero.....	1,215,232.96	2,086,886.09
Hidalgo.....	1,734,651.68	1,912,499.19
Jalisco.....	3,423,397.96	3,463,009.07
Mexico.....	2,460,134.12	2,481,904.28
Michoacan.....	1,753,105.15	1,812,537.16
Morelos.....	754,252.68	657,271.43
Nuevo Leon.....	969,402.66	1,214,235.71
Puebla.....	3,829,334.20	3,045,762.08
Queretaro.....	403,887.53	468,932.87
San Luis Potosi.....	1,431,504.11	1,750,839.76
Sinaloa.....	1,495,579.66	1,531,925.24
Sonora.....	1,679,539.45	2,200,451.59
Tabasco.....	745,306.32	809,777.39
Tamaulipas.....	965,329.12	1,217,978.01
Tlaxcala.....		329,996.75
Yucatan.....	2,816,919.00	2,716,897.26
Zacatecas.....	1,368,977.00	1,373,082.04
Vera Cruz.....	4,968,946.22	5,032,695.69

\$41,434,337.50 \$45,186,934.13

in return \$10,000,000 first preference shares, \$30,278,290 second preference, \$74,724,000 common shares, making a total of \$115,102,290 out of an authorized capital of \$230,000,000 American dollars. Through this operation the Mexican government at once acquired sufficient assets to equal the combined sum borrowed for the purpose of building its railways during all the previous years.

In order to analyze further the movements of the Mexican debt, both capital and interest, as well as the condition of the debt at different epochs of her history, the accompanying tables are given with statements in detail, including the expenditures, receipts and debts of the various states. The latter tables are approximations, owing to the disturbed state of Mexico.

Table A brings the Mexican debt with defaulted interest up to the beginning of 1916. It includes the interest and other charges on the four per cent. general mortgage bonds of 1977 expressed in pounds sterling and dollars, the internal debt, capital and interest, expressed in Mexican dollars, equivalent to 4984 dollars American currency and an estimated floating debt of \$25,000,000.

Tables B to G give in detail the different sums which make up the capital and interest accounts of the Republic from 1823 to 1900. In any conversion into Mexican currency the exterior debt should be calculated on a basis of one Mexican dollar equivalent to four shillings. In Table H there is given a summary of the foreign and interior debt from 1823 to June 30, 1912. It is to be noted that in the statements of 1904 the ex-

TABLE K—Public Debt

Statement of the Movement of the Consolidated Public Debt During the Fiscal Year of 1911-1912

Designation of Bonds	CAPITAL MOVEMENT.				
	Amount in Circulation, June 30, 1911	Amount Issued in 1911-1912	Total Value of Circulation	Payments Made in Cash	Bonds Bought Below Par
EXTERIOR DEBT					
Bonds of the consolidated debt exterior 5's of 1899.....	\$102,557,994.81	.....	\$102,557,994.81	\$2,773,104.08	\$1,762.60
Municipal bonds of the City of Mexico.....	15,546,633.82	.....	15,546,633.82	640,413.92	.....
Bonds of the exterior debt of gold 4's of 1904....	76,384,430.24	.....	76,384,430.24	703,759.45	55,670.73
Bonds of the loan of 1888.....	13,081.62	.....	13,081.62	.....	.....
Bonds of the loan of 1893.....	2,147.73	.....	2,147.73	.....	.....
Bonds of the railroad of Tehuantepec.....	4,341.83	.....	4,341.83	.....	.....
Bonds of the exterior debt 4's—gold of 1910....	106,663,830.00	.....	106,663,830.00	1,561,236.45	144,038.55
Provisional certificates of obligation of the United States of Mexico, 1912, issued by Francisco Madero.....	.....	20,064,205.46	20,064,205.46	.....	.....
SUM TOTAL OF THE EXTERIOR DEBT.....	\$301,176,365.01	\$20,064,205.46	\$321,240,570.47	\$5,678,513.90	\$201,471.88
INTERIOR DEBT					
Bonds of the interior debt 3 per cent.....	\$43,329,250.00	.....	\$43,329,250.00	.....	.....
Bonds of the interior debt of the 5 per cent. and certificates of the same bonds.....	91,892,200.00	.....	91,892,200.00	\$491,800.00	.....
Bonds of the railroad of Monterey, Gulf & Tampico.....	2,000.00	.....	2,000.00	.....	.....
Bonds of the port of Vera Cruz.....	25.00	.....	25.00	.....	.....
Bonds of the railroad of Vera Cruz & Pacific....	60.00	.....	60.00	.....	.....
Provisional certificates for the subsidy of the Kansas City, Mexico & Oriental Railroad....	445,400.00	.....	445,400.00	.....	.....
SUM TOTAL OF THE INTERIOR DEBT.....	\$135,668,935.00	.....	\$135,668,935.00	\$491,800.00	.....

TABLE K—Public Debt

Designation of Bonds	CAPITAL MOVEMENT			Amount in Circulation up to June 30, 1912
	Redemption		Total Amount of Redemption	
	Through Exchange for National Loan	Forfeiture Through Contract		
EXTERIOR DEBT				
Due bonds of the consolidated debt exterior 5's of 1899.....	\$2,774,866.68	\$99,783,128.13
Municipal bonds of the City of Mexico.....	640,413.92	14,906,219.90
Bonds of the exterior debt of gold 4's of 1904....	759,430.18	75,625,000.06
Bonds of the loan of 1888.....	13,081.62
Bonds of the loan of 1893.....	2,147.73
Bonds of the railroad of Tehuantepec.....	4,341.83
Bonds of the exterior debt 4's—gold of 1910....	1,705,275.00	104,958,555.00
Provisional certificates of obligation of the United States of Mexico, 1912, issued by Francisco Madero.....	20,064,205.46
SUM TOTAL OF THE EXTERIOR DEBT.....	\$5,879,985.78	\$315,360,584.69
INTERIOR DEBT				
Bonds of the interior debt 3 per cent.....	\$374,425.00	\$39,000.00	\$413,425.00	\$42,915,825.00
Bonds of the interior debt of the 5 per cent. and certificates of the same bonds.....	491,800.00	91,400,400.00
Bonds of the railroad of Monterey, Gulf & Tampico.....	2,000.00
Bonds of the port of Vera Cruz.....	25.00
Bonds of the railroad of Vera Cruz & Pacific....	60.00
Provisional certificates for the subsidy of the Kansas City, Mexico & Oriental Railroad.....	445,400.00
SUM TOTAL OF THE INTERIOR DEBT.....	\$374,425.00	\$39,000.00	\$905,225.00	\$134,763,710.00

terior public debt is given on the above conversion basis. After 1904 both the exterior and interior debts are given at the present established ratios. This table is followed by another, I, which gives the receipts and expenditures of the Federal Government from 1823 to 1869 and from 1870 to 1885, inclusive, also from 1895 to 1912 and the estimated resources to 1914 and 1915.

Table J presents both exterior and interior debts of the various states and the expenditures of all the states in the last normal year. Table K gives the complete statement of the capital and interest of the exterior and interior debt of 1911 and 1912, showing the orderly manner and correct methods of the Mexican government even after the revolution by Francisco Madero. This summarizes the history of the exterior and interior debts

of Mexico throughout her stormy and peaceful periods and shows the greatness of her resources and her honesty as a nation.

Governments which enjoy undisturbed peace can claim little credit in paying off with punctuality the interest on their debts, but this nation, which has been subject to all the vicissitudes of civil war, deserves consideration. No doubt Mexico will welcome effective constructive work as an aid to recover stability; but no greater crime is committed against this nation than public criticism by those whose greatest claim to popular fame lies in their masterly handling of glittering generalities—seeking personal advancement at the cost of the economic units of capital and labor in both nations.

TABLE K—Interest Movement

Designation of Coupons	Obligation Due to Interest June 30, 1911	Bonds Due Fiscal Year of 1911-1912	Total Obligation by Interest	Paid in Cash	Redemption Forfeited or Ceded	Total Redemption	Balance Due June 12, 1912 Not Presented for Payment
EXTERIOR DEBT							
Coupons of 5 per cent. exterior 1899. Entire balance up to June 30, 1911, was \$1,298,265.94 to which must be added \$8,027.20 which were in the prior year due to coupons of bonds not redeemed and which must be added to complete interest charges	\$1,306,393.14	\$4,995,565.43	\$6,301,958.57	\$5,012,566.66	.....	\$5,012,566.66	\$1,289,391.91
Coupons of the municipal loan of the City of Mexico Bonds of the 1904 gold; the balance up to June 30, 1911, was \$296,408.51 to which must be added \$140.46 which corresponds in the prior year to coupons which were not presented for redemption and which were to complete the total interest charges.....	206,584.72	752,950.07	959,534.79	759,673.94	24.40	759,698.34	199,836.45
Coupons of the 4 per cent. gold of 1910.....	296,548.97	3,047,732.74	3,344,281.71	3,093,579.45	200.64	3,093,708.09	250,501.62
SUM TOTAL OF THE EXTERIOR COUPON DEBT	\$1,809,526.83	\$13,046,296.64	\$14,855,823.47	\$13,115,868.45	\$225.04	\$13,116,093.49	\$1,739,729.98
INTERIOR DEBT							
Coupons of the 3 per cent. interior 1885. The balance due to June 30, 1911, was \$788,619.67 to which must be added \$150 corresponding to coupon 41 which should have been cancelled prior to this date.....	\$788,769.67	\$1,291,768.12	\$2,080,537.79	\$1,275,871.87	\$12,422.63	\$1,288,294.50	\$792,243.29
Coupons of the 5 per cent. silver, first and fifth series	161,977.50	4,582,180.00	4,744,157.50	4,538,587.50	1,395.00	4,539,982.50	204,175.00
Coupons of the subsidy bonds of the railroads of Vera Cruz & Pacific.....	345.00	.....	345.00	.....	345.00	345.00	.....
Coupons of provisional certificates of the subsidy of the Kansas City, Mexico & Oriental Railroad.....	10,021.50	20,043.00	30,064.50	20,043.00	.....	20,043.00	10,021.50
Drainage coupons of Vera Cruz.....	25,083.75	80,042.50	105,126.25	82,695.00	.....	82,695.00	22,431.25
Coupons of the Tampico drainage works. Balance on June 30, 1911, was \$39,850 to which must be added \$174 which had previously been considered in the payments made....	40,024.00	101,985.00	142,009.00	105,076.25	.....	105,076.25	36,932.75
Coupons of the drainage work of Mazatlan.....	14,085.00	26,477.50	40,562.50	27,332.50	.....	27,332.50	13,230.00
Coupons drainage work port of Mexico.....	17,450.00	34,575.00	52,025.00	34,775.00	.....	34,775.00	17,250.00
SUM TOTAL OF THE INTERIOR COUPON DEBT	\$1,057,756.42	\$6,137,071.12	\$7,194,827.54	\$6,084,381.12	\$14,162.63	\$6,098,543.75	\$1,096,283.79

THE STORY OF THE PIOUS FUND

By HOMER JOSEPH DODGE

AS soon as the de facto Government of Mexico is placed on a foundation which gives any promise of permanency, a new chapter in the story of the Pious Fund of Lower California, probably the most romantic financial institution the western world has ever known, will be written. By the terms of a decree of The Hague tribunal, handed down in 1902, the Republic of Mexico must pay to the United States the sum of \$43,050.99 annually on the second of February in perpetuity. But, true to an apparently intrinsic characteristic of the Pious Fund, the custodians of it have swept aside the decree and Mexico is in default. The work of making a final settlement on account of the fund, believed to have been completed for all time in 1902, must begin again. That it will begin anew and that the fund will undergo further vicissitudes may be expected, for throughout the centuries of its existence the Pious Fund has undergone many operations, yet always has emerged still a financial entity and, it would seem, still a source of trouble.

Religion, politics, finance, ups and downs of government, nearly every conceivable element of human management has figured in the history of this fund of money. Founded in the fifteenth century, the names of the great of that period were associated with it; enduring in the twentieth century, it still figures largely in international affairs. No fiction is more strange than the story of the Pious Fund.

His Excellency, Senor Eliseo Arredondo, the Mexican Ambassador at Washington, gives assurance that Mexico does not repudiate the debt but will pay it when her affairs are placed on a more stable basis.

Just as finance is inseparable from development in all cases, so the story of the Pious Fund is intertwined with the history of the discovery, colonization and development of Mexico and her territories. When the conquistadores of Spain sailed the western ocean to spy out the land of the new world, they brought with them the representatives of the Roman Catholic Church. Foremost at that time among the cross bearers who followed the swords of the Dons were the members of the Company of Jesus, later to become celebrated throughout the world as the Society of Jesus. The priests of this order were the first to penetrate into the heart of the occidental wilderness, seeking to bend to their faith the American aborigine.

Now Cortez was not content with traversing the mainland of Mexico. With a picked company he set sail westward on the waters of what he named the Sea of Cortez, now known as the Gulf of Lower California. Should he follow the setting sun, he was told by the natives, he would come to the shores of the land which was the rich treasure house of the Aztecs. He held the western course and landed on the lower extremity of what is now known as the Peninsula of Lower California. Then it was believed to be a great island, al-

most of continental size; in fact it was believed to be an island up to a comparatively recent date.

The first labor of the priests in his party was to found the mission at Loreto, the ruins of which yet stand. In due time the news of the discovery of the new land and of the founding of the mission filtered back to the old world courts. The Company of Jesus volunteered to attempt the colonization of the new Spanish dominion. The Padre Juan Maria Salvatierra of Milan undertook to head the adventure. For lieutenant he had the Padre Juan Ugarte. Funds were subscribed by high-churchmen and noblemen for the purpose of forwarding the pious mission of the Jesuits and the collection obtained was called the Pious Fund. This was in 1697.

The work of founding new missions went forward with spirit. Northward they were pushed, a long chain of them which ultimately reached the seven hundred and fifty mile length of the Peninsula of Lower California and still northward to the site of the present city of San Francisco. The missions were connected by El Camino Reale, stretches of which are in use to-day.

The Pious Fund was the fountain head of the resources of this mission building. The idea of subscribing to the fund became fashionable in Mexico, in Spain, in Italy, even among Catholics in England and other countries of Europe. The Mexican Marquis de Villapiente, a fabulously wealthy land owner, donated tens of thousands of pesos to the fund at various times. Devout Catholics on their death-beds bequeathed large sums to the Pious Fund. Maria, Grand-duchess of Borgia, a kinswoman of Cæsar Borgia, devised sixty-two thousand pesos to the fund. She left this money to be used in erecting three missions in the three most inaccessible parts of the world. These missions, or ruins of them, may be seen at Calamyget, Santa Maria and San Borja in Lower California.

The custody of the Pious Fund was withdrawn by Rome from the Company of Jesus and placed in the hands of the Dominicans. They, history says, and other high-churchmen grafted from the fund. In 1731 it amounted to \$120,000 and continued to grow. In 1735 a contribution of \$400,000 was added and twelve years later \$120,000 more was subscribed. In 1784 it had reached \$1,040,000.

About 1800 the King of Spain took charge of the Pious Fund. Although acting merely as trustee he helped himself to \$200,000 of the fund in 1806 and court officials grafted the income on the principal.

When, a few years later, Mexico established her independence, a special junta was appointed to administer the fund. The interest was to be paid to the missions in the Californias, by this time reaching far into Alta California, the present state of the American Union. But Mexican finances needed bolstering up and in 1836 the Pious Fund was sold outright to M. de

Mofras, a Frenchman, for \$2,000,000. He administered it to suit himself until 1842, when the Mexican deputies passed an act totally ignoring de Mofras' rights and covering the fund into the Mexican Treasury. All might have remained tranquil had Mexico paid an income from the fund to the missions of Baja and Alta California, but this it failed to do and negotiations between the churchmen and the Mexican Government were opened. The Bishops Almeny and Amat, stout churchmen of the Alta California missions pressed for a settlement with such vigor that in 1868 a mixed committee of two Mexicans and two Americans was appointed to adjudicate the Fund. A deadlock resulted and Sir Edward Thornton, an English diplomat, was appointed referee. He found in favor of Upper California, by this time an American possession, in the sum of \$900,000.99. It was not until 1890 that Mexico paid this claim. Under the agreement, then reached, the southern republic was to make annual payments of interest, but she defaulted.

The matter was taken before the international tribunal at The Hague, where the whole question was

threshed out by special commissioners appointed by Mexico and the United States. Jackson H. Ralston of Washington was the principal representative of the American Government in the proceedings. The Hague found in favor of the United States in the sum of \$1,420,682.67 in 1902, a considerable amount of back interest being figured in this total. In addition to paying this, Mexico was obligated to pay the United States annually on February 2d, the sum of \$43,050.99 in perpetuity, as the share of the northern missions in the long chain started by Padre Salvatierra. Mexico paid this annuity promptly up until February 2, 1915, when, there being no recognized Government in Mexico, there appeared to be no one responsible for the debt. The year previous, General Huerta, though not recognized by this Government, had paid the annual installment.

What now shall be done remains with the American State Department and President Carranza. Certain it seems that the Pious Fund is destined to more vicissitudes.

A. B. A. MEN IN THE FEDERAL RESERVE SYSTEM

The recent appointment of Caldwell Hardy, president of the Norfolk National Bank of Norfolk, Va., to be reserve agent of the Federal Reserve Bank of Richmond renews attention to the large proportion of men contributed to the reserve system by the American Bankers Association. Mr. Hardy is an ex-President of

the Association, and he succeeded William Ingle, who has served the Association extensively in committee work. A little over a year ago the JOURNAL-BULLETIN published a list of Federal reserve officials affiliated in some capacity with the American Bankers Association. The following tabulation shows these affiliations to date:

Reserve District	Position	Name	A. B. A.
1	Reserve Agent	Frederick H. Curtiss	Formerly Executive Council.
1	Governor	Alfred L. Aiken	Formerly President Savings Bank Section.
2	Director	Robert H. Treman	Executive Council.
2	Reserve Agent	Pierre Jay	Committees.
3	Advisory Council	Levi L. Rue	Currency Commission.
4	Director	Robert Wardrop	Currency Commission.
4	Director	S. B. Rankin	Secretary Ohio Association.
4	Reserve Agent	D. C. Wills	Formerly Executive Council.
4	Governor	E. R. Fancher	Formerly Executive Council and Ex-President Clearing House Section.
5	Reserve Agent	Caldwell Hardy	Ex-President.
6	Director	L. P. Hillyer	Formerly Executive Council.
6	Director	F. W. Foote	Formerly Executive Council.
6	Governor	Joseph A. McCord	Formerly Executive Council, member Currency Commission.
7	Director	George M. Reynolds	Ex-President.
7	Director	James B. Forgan	Vice-Chairman Currency Commission.
7	Director	E. L. Johnson	Formerly Executive Council.
8	Director	Walker Hill	Ex-President.
8	Director	F. O. Watts	Ex-President.
9	Director	J. C. Bassett	Formerly Executive Council.
10	Advisory Council	E. F. Swinney	Ex-President, member Currency Commission.
10	Director	Gordon Jones	Formerly Executive Council.
10	Director	J. W. Bailey	Formerly Executive Council.
10	Director	C. E. Burnham	Executive Council.
10	Director	L. A. Wilson	Formerly Executive Council.
10	Reserve Agent	Charles M. Sawyer	Formerly Executive Council.
11	Deputy Governor and Sec'y	J. W. Hoopes	Ex-Treasurer.
11	Director	E. K. Smith	Formerly Executive Council.
12	Director	C. K. McIntosh	Formerly Executive Council.
12	Director	James K. Lynch	President.
12	Reserve Agent	John Perrin	Currency Commission.

HOW A QUICK-WITTED PAYING TELLER CAUGHT A LONG SOUGHT SWINDLER

WHAT is considered by the Protective Department of the American Bankers Association as one of the most important arrests it has made in recent years was brought about last month through the alertness of a paying teller in a member bank at Shreveport, La. The importance of the capture is not due to the fact that the prisoner is distinguished particularly as a double-dyed villain or a daring safe-cracker, for he is nothing of the kind. It is because for five and one-half years he has been successful in passing worthless checks and eluding capture or even identification, that the arrest of Charles Stanley Walker is regarded with particular satisfaction by the Protective Department and the William J. Burns International Detective Agency.

The man in question has been operating for years under the name of C. Wood, C. Wade, and a score of other aliases, a full list of which will be found in the Protective Section of this issue of the JOURNAL-BULLETIN, together with a history of his case. The remarkable part of the story, however, is that despite repeated warnings sent out by the American Bankers Association and the Burns Agency, extending over a long period and detailing the exact method of Walker's operations, he should so long have escaped the vigilance of paying tellers, popularly supposed to be one of the most vigilant classes of our citizenship. Such immunity on the part of the culprit argues an extraordinary degree of cleverness; and it is estimated that his ingenuity netted him a monthly income of \$500 to \$1,000.

In January of this year another warning circular was sent to every bank in the country, directed particularly to paying tellers, giving a description of Wood or Wade's appearance and detailing exactly his mode of approaching the teller. To quote from the warning circular:

This swindler will appear at your window and greet you in a friendly manner and call you by name. When you state that you do not recall having met him before he will display evident surprise. He will mention some gathering or affair that you have attended and endeavor to convince you that he became acquainted with you on that occasion. He is of a jovial nature and assuring manner and makes people believe they know him. He now has your confidence and at this precise moment he extends a check to you for cash. You glance at it. It will have the appearance of the check herewith inserted.

Then followed a facsimile of one of the fraudulent checks already passed, with an analysis of its main characteristics. Yet although thousands of tellers had this information at their elbows, the author of the checks remained unapprehended.

It remained for a young paying teller, Patton Hawkins, in the First National Bank of Shreveport, La., to break the spell. When a man approached his window March 7 and greeted him with a friendly, "How do you do, Mr. Hawkins," the latter seems instantly to have visualized the warning circular. But here is the teller's

own story, as presented in a letter to the General Secretary of the Association:

DEAR SIR:

Referring to the arrest of the man giving the name of C. Warren here on the 7th instant, I desire to state that the arrest of this man was brought about in the following manner:

Our bank was in receipt of two circulars from the William J. Burns International Detective Agency from their New York and New Orleans offices. The New York circular was received at our bank some time in the early part of January last, and the circular from the New Orleans office was dated January 26. These circulars advised us that the forger in question was known to be operating at points in Mississippi and would be likely to continue his operations in this section.

Both circulars impressed me very much because of the accuracy with which they described the criminal's *modus operandi*, his manner of approaching paying tellers, etc. Consequently, when a man giving the above name presented a check of the Commonwealth Trust Company of Houston, Texas, on the First National Bank of Houston, Texas, for \$100, I immediately suspected that he was the party described in the Burns Agency circulars.

When I saw the handwriting on the check my suspicions were confirmed. I asked him to wait a moment, thereby detaining him while I attempted to get an officer. His suspicions were evidently aroused and he said: "Never mind, give me back the draft." When I made no move to return the draft to him he turned and left the bank. I immediately followed until I met a deputy sheriff, who placed him under arrest and returned to the bank with him. I then examined the circulars very closely and was thoroughly satisfied on comparing the handwriting contained in the circulars with the draft in question that he was no doubt the man referred to. The city police were then notified and a representative from that department immediately called at the bank and took charge of the prisoner.

Yours very truly,

(Signed) PATTON HAWKINS,
Paying Teller,
First National Bank,
Shreveport, La.

A simple narrative, and the exploit itself as simple as the feat of Columbus in showing his circle of bantering courtiers how to make an egg stand on end. But the trick that seems the simplest is usually the one requiring the quickest thought translated into quickest action. In this case it was the first impression that counted, and if Patton Hawkins had neglected to follow his "hunch" and use his brain, there would have been just one more contribution to Walker's illegitimate income and in all probability he would still be at large. More minds of the Hawkins type would rid the country of a lot of bank swindlers.

Incidentally, the arrest is another demonstration of the efficiency of the American Bankers Association's protective system. It also serves to fix still more strongly the tradition that those who offend against members of the American Bankers Association will be caught some time, no matter how long the pursuit may last.

SUPER-TAX AND COLLECTION AT SOURCE IN THE ENGLISH INCOME TAX LAW

By KOSSUTH KENT KENNAN, Member Income Tax Committee, National Tax Association

The present Federal Income Tax Law was confessedly modeled after the English law in at least two respects: First, in the device of a normal tax supplemented by a super-tax, and second, in the provision for collection at the source. It is true that at the time the Federal Law went into effect it differed from the English law in that it made the super-tax progressive in its rates; but, since then, the English super-tax has also been made progressive, so that the similarity of the two systems is now quite marked.

The English super-tax is of very recent origin, having been first imposed in 1909-1910. Prior to that time the yield of the income tax was regulated by varying the rates of the "normal tax." In 1899 the rate was eight pence in the pound (3 1/3 per cent.) This rate was gradually raised to meet the expenses of the Boer War until it reached 1s. 3d. (6.25 per cent.) in 1902-3. For several years afterwards the rate hovered around the shilling mark (5 per cent.), going higher or lower, according to the exigencies of the financial budget, until the pressure of the present war began to be felt, since which time it has advanced by leaps and bounds. The First Finance Act of 1914 provided that the income tax for the year ending April 5, 1915, should be chargeable at the rate of 1s. 3d. (6 1/4 per cent.) in the pound; but, at the "Second Session" this was raised to 1s. 8d. (8 1/3 per cent.) and afterwards to 2s. 6d. (12 1/2 per cent.), and even this high rate has now been increased 20 per cent. for the year 1915-1916 and 40 per cent. for 1916-1917, thus bringing the rate up to 3s. in the pound for the first year and 3s. 6d. (17 1/2 per cent.) for the second year.

Corresponding advances have been made in the super-tax which applies only when the income is in excess of £3,000, but begins to be reckoned at £2,500.

The original progressive rates on the super-tax were:

For the first £ 500	5d. in the pound
For the next £1,000	7d. in the pound
For the next £1,000	9d. in the pound
For the next £1,000	11d. in the pound
For the next £1,000 1s.	1d. in the pound
For the next £1,000 1s.	3d. in the pound
For the next £1,000 1s.	4d. in the pound

The highest rate, 1s. 4d., was equal to 6 2/3 per cent., but these rates have been raised until now the highest rate will reach, in 1916-1917, 3s. 6d. and the maximum combined normal and super-tax will eventually amount to the unprecedented figure of 35 per cent. of the income.

The yield of the tax has also been materially increased by lowering the exemption at the foot of the scale from £160 (about \$778 under normal rates of exchange) to £130 and by lessening the abatements allowed on certain classes of income under £700.

In view of the recent decision of the Supreme Court of the United States which practically gives to Congress

a free hand in prescribing income tax rates, it is highly probable that the super-tax will be made to begin with a lower figure and the rate of progression will be increased. It will be remembered that the President, in his message of December 7, 1915, suggested that "By somewhat lowering the present limits of exemption, and by increasing step by step throughout the present graduation the surtax itself, the income taxes as at present apportioned would yield," etc. The Secretary of the Treasury in his report said: "The surtax could begin at \$10,000 or \$15,000 instead of \$20,000 as provided by the present law."

Three bills have already been introduced in Congress providing for an increase in the super-tax. The first of these (H. R. 559) repeats the present provisions for a super-tax and prescribes the following scale of rates:

On income exceeding \$10,000 up to \$25,000	—1 per cent.
On income exceeding 25,000 up to 50,000	—2 per cent.
On income exceeding 50,000 up to 75,000	—3 per cent.
On income exceeding 75,000 up to 100,000	—4 per cent.
On income exceeding 100,000 up to 200,000	—5 per cent.
On income exceeding 200,000 up to	—6 per cent.

The other two bills (H. R. 519 and 4815) provide for a flat rate of 5 per cent. on all incomes of \$10,000 or over, and are identical in the wording. Under the terms of those bills the proceeds of the tax is to be used "to meet the cost of naval construction and for other purposes."

In view of the fact that Mr. McAdoo, Secretary of the Treasury, in his recent annual report, recommended that the Federal law be changed "so as to do away with the withholding of the income tax at the source," it may be well to call attention to the fact that the English system of collection at the source, though administered under vastly more favorable conditions than prevail in this country, is by no means an unqualified success.

For example, the most recent statistics as to the number of applications for refund annually made show that there were 658,808 such applications. It should perhaps be explained that in England the person withholding the tax at the source does not take into account the abatements or exemptions to which the taxpayer may be entitled and the only remedy of the person taxed is an application for refund. Among the abatements may be mentioned:

- (a) Income under the exemption of £130.
- (b) Varying abatements on incomes under £700.
- (c) Premiums for life insurance (not exceeding 1/6 of income).
- (d) Abatement of £10 for each child (if income under £500).
- (e) Reductions for earned incomes (not exceeding £2,000).
- (f) Charities, hospitals, schools, etc.

The principal grounds upon which refunds are

claimed are shown by the following classification of the applications:

	No. of Applications
Exemptions, small incomes, dividends, ground rents, etc.....	414,158
Abatements proper.....	134,522
Life insurance premiums.....	24,942
Appeals from assessments.....	23,426
Charities.....	14,943
Foreign dividends to non-residents.....	6,408
Other grounds.....	40,409
Total applications.....	658,808

The above statistics are perhaps sufficient to illustrate the fallacy of attempting to collect taxes at the source under any system which involves the progressive principle. The sharply progressive rates which have recently become a feature of the English law are likely to render the plan of "collection at the source" still more expensive and burdensome and the total abandonment of this method of collection is now being seriously considered.

LONDON'S POSITION AS A FREE GOLD CENTER

Hubert V. Burrell, writing in *The Bankers' Magazine* of London on the subject, "The Probable Effects of the War on London's Position as a Free Gold Center," after a discussion of all the factors comes to the conclusion that should London ever cease to be such a free market it would mean nothing less than that her position as financial center of the world would be put in jeopardy. Mr. Burrell assumes at the outset that Germany, in the event of defeat in the present conflict, will be nationally bankrupt. It will then be necessary for Germany to get her finances back to a sound basis—gold as distinguished from paper—as a preliminary to the re-establishment of her foreign trade. Her first problem, therefore, will be to attract gold, and this can only be done by using her natural resources. Assuming that London maintains or endeavors to maintain her pre-war position, it follows that London will still be the easiest center from which to obtain gold, and under such conditions the question arises whether she will be able to stand the strain. Taking up first the negative factors of the problem, Mr. Burrell says:

"The demand likely to arise on the part of Germany is bound almost certainly to be accompanied by more or less of a gold famine in all the other belligerent countries; that is to say, in practically the whole of Europe. Not only Germany, but all the other Great Powers engaged in the war are piling up liabilities of unheard-of magnitude, and at its conclusion each and all will be under the necessity of using every means to attract and retain gold as much as possible in order to strengthen and improve their financial positions. Hence Europe will probably be faced with a gold war in a widespread and acute form; such a war as we have often seen in the past, but to a much more aggravated degree—a situation which has well been compared to that of three men struggling to cover themselves with a blanket only big enough for two. Even if London is able under these conditions to refrain from imposing restrictions on the export of gold it will only be at the cost of a high and constantly changing discount rate, which damages trade and will hinder the re-establishment of normal conditions. And if the constant foreign demands likely to arise, coupled with our own internal requirements should, as is possible, bring about a series of financial crises, or impose, more or less permanently, a penalizing discount rate, it may well be that this country will be

forced to abandon her position as a free market, and to take steps similar to those adopted in other centers to protect her gold reserve. It seems at least safe to assume that the foreign drain of gold which this country is likely to have to meet will probably be greater in the future than in the past, both because the demand is likely to be more insistent to meet the huge paper liabilities created during the war and because the other countries are likely to take more stringent measures even than formerly for protecting their reserves of gold. London, as the one free market, will have to bear the brunt, and it may well be that she will be forced in self-defense to abandon her position.

"On the positive side there are one or two factors to be considered. In the first place, Great Britain will probably be the strongest, financially, of all the belligerent powers at the peace. She will have large claims on other countries for loans, etc., and her liabilities, although huge, will be less overwhelming proportionately to her resources than those of the other powers. Her financial position will consequently be stronger than that of any other country, and this will better enable her to bear the strain which may fall upon her. So, too, with the internal position. By internal position I mean that the banks and financial houses, in fact the trading community generally, will be in a better condition here than anywhere else to meet future contingencies, whatever they may be and however they may arise. After all, credit, which is likely to be sounder here than anywhere else, especially at first, is a big factor in eking out and supporting a gold reserve. Our banks, traders, etc., not having had the dead-weight loss of destruction of property to contend with as in the case of those countries which have suffered invasion, will be in a much stronger position than similar institutions in foreign countries. Nor has the business of the commercial community been interfered with to anything like the same extent during the war as has been the case abroad. Taking all this into consideration, it would seem that the superior internal position of this country ought to prove a strong asset in assisting us to maintain our position. Lastly, there is the argument of necessity. The effects likely to follow from an abandonment of our position as a free market will probably be so vital and so far-reaching as to cause us to make every effort to maintain it so long as we possibly can."

In Its Economic Sense Interest is the Lender's Share of Profit

By SAMUEL RUSSELL

THE term interest denotes the interest or share in the profits of stock or capital which are rendered to the owner or lender of the stock by the one who borrows or employs the same. This is the true denotation and radical meaning of the word interest as related to principal or capital.

Stock in its widest sense comprises land, labor and goods, but as land is the source and labor the means of the creation and fabrication of goods, the word stock may be limited to those goods, chattels and articles, other than land, which are capable of personal use, possession and proprietorship. Stock which is employed in business and enterprise is denoted as capital. Inasmuch as such stock becomes depreciated, extended and consumed in the process of its use and employment as capital and is to be returned, replaced and reproduced in kind or value, it is the custom to capitalize the principal stock of enterprise by valuation. The value of such capitalized stock is usually denoted in dollars or money and is divided into units or aliquot shares for the distribution of profits. When these profits are distributed to the owners of shares they are distributed as dividends. When the profits are distributed to lenders of the capital, they are distributed as the interest or hire of the capital. This is the true explanation of interest in the moral and economic sense.

There is this important distinction between the shares or interest in profit denominated as dividends and the share of profit denominated as interest. The shareholder of capitalized stock really adventures his capital to the use of others for a proportionate interest in the profits. There is no contract or legal duty on the enterpriser or employer of the stock to render a certain sum as profit, whereas in the case of the lender of capital or stock for hire there is usually a definite contractual duty to render a certain share or interest in the profits, fixed, not by parts or proportions, but fixed in a definite sum reckoned upon the principal value in money of the capital or stock advanced. In this sense, interest is the contractual hire of money. Usury would be a precise denotation of this hire but the term usury has by custom become applied to excessive, unreasonable and unlawful rates of interest.

In the legal sense, the duty to render interest arises by contract express or implied. It is implied by law in all cases where debts are withheld after due and mature. It has been said that in law, interest follows the principal like the shadow the substance. In such cases of implied duty to render interest, the rate is usually fixed by statute at a certain *pro centum* per annum which is denoted as the legal rate. It should

perhaps be repeated that interest is a matter of contract *inter partes* except in cases of the withholding of debts after maturity, in which cases the law implies a duty to render interest. This implied duty, of course, can not operate on unliquidated or unsettled amounts, such as damages to person or property unascertained in money. Such damages draw interest from the date of their legal liquidation and ascertainment by verdict and judgment. Of course the forbearance of a creditor to demand satisfaction and discharge of a debt for a definitive period of time is, in law, good cause and consideration for a stipulated duty to render interest for such period.

Profits are the natural and moral production of the employment of stock and labor in the enterprises of industry and business. Profits are not produced by stock as such, but only by the employment of stock. Profits are the increased values of reproduction above the value of the stock used and consumed in the process. All profits are produced by enterprise, which consists in the assembling and employment of stock and labor in the processes of conversion and reproduction. As stock is consumed in the necessary sustenance and maintenance of labor, the value of such consumed stock must be reproduced in the values added or created by such labor, and it therefore follows that the enterpriser who finds and advances the stock consumed by labor is naturally entitled to the reproduced values of labor which his stock sustains.

Profits are in kind as the increased product of animal and agricultural husbandry and in value as the increased and produced values of the enterprises of business, fabrication and commerce. Stock is usually the means of employing labor, although labor may employ stock as well as stock may employ labor. As a general course, however, it is the owner or borrower of the stock who employs labor and is entitled to the residue of profits as the reward of enterprise after payment of the stipulated wages of labor and of the stipulated hire of the stock. Of such profits the interest of the laborer is his wage, the interest of the lender is the hire of his money and the interest of the enterpriser is the residue of profits which we may denominate the reward of enterprise. The wages of labor and the hire of stock are both ascertained and assured by a contractual debt on the part of the enterpriser; the enterpriser himself, however, must win his reward in the field of competition and by the free processes of business.

As to discounting future values in action or anticipation for present values in possession, this is a familiar practice and rests quite entirely upon contract. The right to have future values is usually obtained in exchange for present values. Perishable present goods

and services are by this process preserved for future use and demand. It is preservation of values rather than special profits that is the proper and natural motive for such process. And in this consists one of the main-springs of business.

The institution of property in stock and of personal contractual capacity is at the base of all these processes of business. The rendition of hire for the use of stock or goods is also a matter of contract. The hire of goods and the hire of money which is a species of goods according to the reasonable contractual acts of persons *sui juris* would seem to be well justified in sound policy, morals and economy.

And as money is the power to purchase and vested credit, measured in terms of money, the legal right to demand stock and as money is the legal solvent for debts created by the delivery and extension of stock, money and credit have the same moral right to hire and interest as has stock itself. As money and credit are only exchanged and not consumed in the processes of enterprise, but when loaned and advanced must be returned in kind, the hire and use price of this species of stock must also be in money. This use money by analogy to the natural fruits of husbandry has by the continental economists been denominated as the usufruct of money.

The use value or the interest of money and credit is determined by the contractual act of lender and borrower and is influenced by the supply of stock and labor available for the enterprises of business. The assembling, conversion and employment of such stock and labor may only be done by the conversion of such commodities through contractual valuation into money and credits and the exchange and transfer of such money and credits. The elements of opportunity and demand for such exchanges either for consumption or capitalization together with the supply of stock for such demands are factors which are resolved in the contractual rate of interest.

Whatever there is of the so-called impatience theory of interest has to do with the variable impulses, needs and desires which are manifest in the human will. These elements enter into the traits of individuals and are not susceptible of definition or relative estimation upon any dependable principles. It would be a futile excursion to attempt to base any sound theory of interest upon the psychic attitude of borrowers. A relatively large number of customary and normal bank loans are made to borrowers who are usually solvent, whose primary credits are equal to or in excess of their debts, but who are honest enough when their own debtors fail to remit, to go with their securities to the bank and make loans in order to pay their creditors. Such borrowers thus create funds which become the means of remittance and clearing not only for themselves but for the whole mercantile community. The process of credit and debit, of give and take, to accommodate the demand for consumption, is the normal course of business. And the need of consumption is real and pressing quite as much with the man who has present perishable stock or labor which he can save only by conversion into

credits for future use and demand, as with the man who has present needs which may only be satisfied by taking such perishable stock or service and assuming a debt which shall be reciprocal to the credit extended and which may only be discharged by the extension of equivalent future goods and service. This process of recurring credits and debts operates upon an altogether beneficent principle existing in the nature of things and having its origin in a profound providence.

Land alone produces rent. It is not consumed in the use and the profits of its use are naturally denoted as rent. When debts are capitalized or funded, so as to produce rent or interest, they are denoted as funds. Debts by this process expressed in a principal or capital sum are rendered stable and funded and made to produce rent in analogy to land. Funded debts are frequently denominated as investments and are exemplified by the certificates and bonds which evidence capitalized stock. Any debt may be said to be funded when its payment is postponed for a defined time with provision for the rendition of hire or interest. Of course, the securities upon which such debts are funded are subject to depreciation and decay like all other species of stock. Obligations of land and of corporations which exist in perpetuity are the surest bases and securities for such funds.

Debts, however, in the ordinary course of business, are contracted not primarily for funding, capitalizing and interest, but rather for the facility and promotion of exchanges and trade, in the articles and services of consumption. The motive for such exchanges is the prevention of waste and depreciation and the promotion of use and consumption. For every debt there is, of course, a reciprocal and equivalent credit. The credit may be said to be positive and the debt to be negative. The liquidation, clearing, offsetting and merging of these positive and negative items, is the true and proper function of finance, and presents the future field for its scientific perfection and evolution.

Interest paid to banks in the modern sense, is compensation for the insurance of credit and for the service of transfer and clearing of such credits through their books. The borrowers support the whole structure and pay for its maintenance. The public which uses the credits pays nothing. It is the borrower who creates banking funds. It is on the borrower's securities that the funds are primarily based and it is the borrower's interest which pays the banker's premium for insuring the funds and for the maintenance of institutions for the settlement, transit and clearing of the credits required for the accommodation of the business, exchanges and trade of the country. The matter of loans and credits is a contractual matter between the banker and the customer and the interest is the contractual premium or price which is paid for the bankers insurance and services.

This is interest as it is and not as it is projected in the theorems of the professional political economists. If the economists would become interpreters rather than dissertators, economy itself would cease to be called the dismal science.

The Bank of Barcelona, A. D. 1401, and Its Bearing on American Banking History

First of Its Modern Prototypes, where Originated the Testing and Supervision of Coinage by Civilians—Its Connection with the History of the Unfortunate Queen Joanna.

By ALEXANDER DEL MAR

BANKS are commonly supposed to be of medieval or modern origin. This is so far from the truth that the necessity for their adoption has resulted in their establishment in all ages and countries where the government was sufficiently powerful to protect their funds from pillage and sufficiently just to permit and protect the exercise of their necessary and lawful functions.

The earliest governments of this character were pontifical, the sovereign being both king and high priest. Hence the earliest banks in the Occident were the national temples, such as Delphi and Delos in Greece, whose activities in this respect date back to the earliest use of coined money. This money they received on deposit and loaned out at rates of interest varying from 10 to 36 per cent. per annum.

Following the temple banks, perhaps coeval with them, were those private bankers whom we first hear of in Babylon, *tempo* Nebuchadnezzar, under the title of "Egibi and Sons," about 600 B. C. (Cuneiform inscription.) The State bank at Ilion, mentioned by Boeckh, as paying 10 per cent. to depositors for money for the public service, must be dated about the third or second century B. C.

At about the same period Theocritus, whose "Idylls" date 260 B. C., mentions a banker at Alexandria, by name Caicus, who paid interest on deposits withdraw-

able at pleasure of the depositor, and payable not only in business hours, but at any time of day or night. (Ep. xxiii.) Tacitus and Suetonius both allude to banks in Rome during the reigns of Augustus and Tiberius; while Lampridius mentions others in the reign of Alexander Severus.

From this period (A. D. 222-235) we hear nothing more of banks until the Jews of the middle ages braved the interdiction against interest by establishing poverty banks or lending houses in Italy about A. D. 400. (Prudentius.)

About the eighth century these establishments were taken over by fraternities of monks and confirmed by the Popes as *montes pietatis*, the right to exact collateral and charge interest being affirmed by several pontiffs, especially Pius II and Sixtus IV.

The old Franciscans were succeeded in this lucrative business by the Lombard goldsmiths and money changers, whose various names of Bardis, Corsini, etc., neither shielded them from popular aversion, nor prevented them from driving a lucrative trade. In 1313 there was a "Lombard" bank at Delft, and in 1329 another at (probably) Calais, which latter loaned 5,000 marks (about 16,000 gold dollars) to Edward III of England.

The bank of Geneva, 1345, and of Florence *circa* 1350, were probably an evolution from the Lombardis, just as the latter were from the *montes pietatis* and these again from the poverty banks of the Jews.

Confining the term bank to its more modern sense, we now come to what may be regarded as the earliest institution of this character in the modern world—the Bank of Barcelona. As the operation of this bank had a bearing upon the affairs of America, they claim some



JOANNA, DAUGHTER OF QUEEN ISABELLA
From "Isabel of Castile," by Irene L. Plunket. G. P. Putnam's Sons

interest from the curious among our banking fraternity.

"In Spain, by the ordinance of Valencia, made by King John, who conquered the kingdom of Aragon, it is expressly provided that *reals* shall only be coined in Valencia and that the mintners shall be supervised by two well known citizens, so that no fraud shall be committed as to material or weight." (Grimaudet, "Law of Payment," p. 14.)

The coin referred to is the well-known Spanish *real de plata*, of eight to the dollar. It was lawful money in the United States down to 1853 and is still known to New York tradesmen as the "shilling" and throughout the southern states and California as the "bit." The coinage supervision ordered by King John (father of Ferdinand, in whose reign Columbus discovered America) was afterwards extended to the mint of Barcelona, where it furnished the basis for the extensive dealings of its bank in the exchange of full-weighted *reals* and *reals-de-a-ocho* (dollar pieces of eight reals) for the heterogeneous coins which flowed from all parts of Europe into that great commercial port.

From Barcelona King John's test of the coins, called in England "The Trial of the Pyx," was carried from Spain into the Spanish American mints of Mexico and Peru and adopted by the United States Government from its very inception. This supervision and testing of the coins is still conducted in the American mints under a commission of civilians appointed by the Secretary of the Treasury. It constitutes the very groundwork and basis of honest money and honest banking; and as such it furnishes an initial point of interest in the mint and Bank of Barcelona.

Upon returning from his momentous voyage to America the storm-tossed Columbus first made the port of Lisbon, communicating his arrival and success by letter to King Ferdinand, then holding court with Isabella at Barcelona. From Lisbon the admiral sailed to Palos, whence he traveled overland to Barcelona and there unfolded to Los Reyes Catolicos and a brilliant throng of nobles and ecclesiastics the particulars of his wonderful achievement; exhibiting among his proofs a number of American natives, specimens of their field products and handiwork and an attractive show of American gold—one of the nuggets being of considerable size.

After the rejoicings and celebrations which followed these exciting events, Ferdinand, who was a calculating monarch and shrewd man of business, decided upon a second expedition, this time planned upon a royal scale and especially prepared for the mining of gold. To carry out this object he had recourse to two financial measures: first, immediate sequestration and sale of the property of heretics; second, a loan from the Bank of Barcelona. This loan furnishes an additional point of interest in that institution.

The children of Ferdinand and Isabella were five in number: I. Isabella, born 1469, married 1490 and again 1496, each time to a prince of Portugal. She died in 1497, leaving an infant son, who expired shortly afterwards. II. John, born 1471, married 1497, died same year, without issue. III. Juana, or Joanna,



Copper Quarto (four Maravedis). KAROLUS ET IOHANNA REGES HISPANIARUM ET INDIARUM. (Coined in Mexico.) On this piece the name of Charles is signified by the initial "K" for Karolus.



Silver Real. CAROLUS ET IOHANNA REGES HISPANIARUM ET INDIARUM. First Spanish coinage in Mexico, then called New Spain.



Silver piece of four Reals (medio peso, or half dollar). CAROLUS ET IOHANNA REGES HISPANIARUM ET INDIARUM. (On this piece, coined in Mexico, the name of the Queen is spelled with one n.

born 1479, married 1497 to Philip, grand duke of Austria. Her children were Charles and Ferdinand, the first of whom became king of Spain and both of whom became emperors of Germany. IV. Maria, married to Emmanuel, king of Portugal, died 1501. V. Catherine, born 1483, married to Arthur, prince of Wales, and afterwards to Henry, who became Henry VIII of England and who caused her to be executed 1536.

The result of these domestic circumstances and calamities was that when the grand duchess Juana, who since her marriage had resided with her husband in Ghent, visited her native country in 1498 a grand reception was prepared for her by her mother Isabella and a Cortes was convened to swear fealty to Juana, "thus recognized as heiress of the united kingdom of Christian Spain" (Prescott; Plunket; Perkins). This recognition included America (Las Indias) as a fief of the crown.

In 1504 Queen Isabella died at Medina del Campo, appointing her consort Ferdinand as regent during the minority of Charles, son of Juana, the heir to the throne; a provision fraught with more than one tragedy, seeing that Juana was already provided with a regent in the person of her husband, a prince of the highest rank and, as his edicts and other public acts testify, of ample

capability. Accordingly, Philip at once assumed the rôle to which he was entitled; an attitude in which Ferdinand seemingly acquiesced by joining with the Cortes in proclaiming Juana and Philip joint sovereigns of the Spanish realms. Immediately after making this concession Ferdinand departed for his kingdom in Italy, though not before removing from the Bank of Barcelona so much of its funds as left it without the means to supply the ordinary requirements of the new reign.

In three months time Philip was a dead man (not without suspicion of poison, for he fell at a dinner in the castle of Burgos); and Ferdinand was back in Barcelona with a pretense that Juana was too distressed to discharge the duties of sovereignty, which he thenceforth obligingly undertook in her name.

What her father called distress and melancholia was chosen to be regarded by her son as aberration of mind; and thus between a hardened and designing politician of threescore years on the one hand and an ambitious prince of sixteen years on the other, this yielding and affectionate daughter and mother was gradually and smoothly removed from her lawful throne.

During the War of Succession, which lasted until 1522, when the Queen's champion was defeated and executed, and when his heroic wife, Maria Padilla, had found refuge in Portugal, Queen Juana, though stoutly backed by the nobles and commons of Spain, yet distracted with fealty for her party, duty to her father and fondness for her son Charles, moreover, being destitute of financial resources, could take no effective part in a struggle which in no event promised relief or advantage to the country. As in the previous War of Succession, where under King John the amiable Don Carlos was his father's victim, neither of the contestants in the present war paid the least regard to the rights of Juana, the queen; yet neither of them ventured to proclaim or avow their own notorious usurpation. The edicts of Ferdinand, until his death in 1516, bear the superscription of "King Ferdinand and his daughter, the Queen Juana," while those of Charles, from 1516 onward, at first "Juana y Carlos," afterwards read "Don Carlos y la reyna Juana." The coinage was also issued in her name and in many parts of Spain and America none other was accepted by the people.

Among the functions exercised by the Bank of Barcelona it nominated and, as affairs went, it practically appointed the commissioners who superintended the trial of the pix; and thus assured the purity and weight of coins struck in the mints of Spain and America.

The bank also received on deposit and disbursed the revenues, or part of them, of the four great ecclesiastico-military orders, and kept the accounts of about a dozen other orders of knighthood, like those of Calatrava, St. James, Golden Fleece, St. George, etc., some of which were ecclesiastical and some merely chivalrous.

The royal treasure, which during the reign of Henry IV was deposited in the castle of Segovia, was afterwards removed and divided by his stepsister, Queen Isabella, who must have deposited a portion of it in the Bank of Barcelona; because the Contador General, or Superintendent of Finances, is known to have drawn some of his warrants upon that institution for public disbursements.

In 1480 Isabella, holding court at Toledo, had signed a decree which greatly affected the Bank of Barcelona. To support the government of Castile Henry IV had issued certain cedulas, or "certificates of annuities, assigned on the public rentes," and these by purchase had become the property of the nobles, who in turn had borrowed money on them from the bank. Isabella's decree denouncing and annulling these certificates—virtually an act of repudiation—was entrusted for execution to her confessor, Ferdinand de Talavera, who performed his task with such fidelity that it "saved" thirty million maravedis annually to the crown, or three-fourths of the entire revenue. (Prescott, *Ferd. and Isab.*, i. 299.)

We hear little more of the bank after this. The treasure from America went not to Barcelona, but to Sevilla, where it was probably deposited with the Casa de Contratacion, or Board of Trade, and thence sent to the mints, of which there were five, each of them situated in a fortified city of the realm.

If the bank survived the depletion of its resources in 1480, it could scarcely have weathered the Civil War of 1517-22, during which period of violence, the old bank, despairing of a return to peace and security, appears to have quietly discharged its obligations, wound up its affairs and honorably dissolved.

In the midst of the struggle Queen Juana removed quietly to Tordesillas, where she continued to reside with her daughter until her death in 1555. Upon receiving intelligence of this event, Charles resigned the greatest empire which the world had ever seen and in the following year retired to a monastery, there to expiate with vain remorse his base ingratitude to a mother who, rather than balk his youthful ambition, had voluntarily removed from her brow a diadem that covered half of Europe, parts of Asia and Africa and all that was known of America.



RESERVE BOARD'S RECOMMENDATIONS REDUCED TO THE FORM OF BILLS

THE recommendations of the Federal Reserve Board for amendments to the Federal Reserve Act have been reduced to the form of bills which have been presented to Congress and are now receiving the consideration of the Banking and Currency Committees of the House and Senate. The Reserve Board makes six recommendations as follows:

1. Permitting national banks to hold stock in banks organized for the special purpose of doing a banking business in foreign countries.

2. Permitting the issue of Federal reserve notes against the deposit of notes, drafts, etc., or of gold or of both; the gold to count as part of the reserve against outstanding notes.

3. Domestic acceptances.

4. Branches for national banks in the city or county in which they are located.

5. Permitting reserve banks to make advances to member banks against the latter's promissory notes or government bonds.

6. Permitting loans on farm lands and real estate.

The first proposal as put into form by Mr. Glass is as follows:

"Sec. 25a. Any national bank possessing a capital and surplus of \$1,000,000 or more may purchase and hold stock in foreign or domestic corporations, other than national banks, which are authorized by their charter to do a banking business in foreign countries: *Provided, however,* That the aggregate amount of stock so held by any one national bank shall not exceed ten per centum of the capital and surplus of the bank: *And provided further,* That before any such national bank shall purchase stock in any such corporation it shall file with the Federal Reserve Board a copy of the charter or articles of incorporation of such association and shall agree to be bound by such special regulations or restrictions regarding its business with, and relations to, such corporation as may be prescribed by the Federal Reserve Board: *And provided further,* That before any national bank shall be permitted to purchase stock in any such corporation, the said corporation shall enter into an agreement or undertaking with the Federal Reserve Board to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may by regulation provide. If at any time the Federal Reserve Board shall ascertain that the said restrictions or limitations prescribed by it are not being complied with by such corporation or by any national bank holding stock therein, said board shall be authorized and shall have power to institute an investigation of the matter and to send for persons and papers, subpoena witnesses and administer oaths, in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Federal Reserve Board, such national banks may be required to dispose of stockholdings in the said corporation upon thirty days' notice, and in the event of their non-compliance with such order the Federal Reserve Board shall request the Comptroller of the Currency to institute proceedings for forfeiture of charter.

"Any national banking association located in a city or incorporated town of more than 100,000 inhabitants and

possessing a capital and surplus of \$1,000,000 or more may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches within the corporate limits of the city or town in which it is located.

The following paragraph was deleted by the House Banking and Currency Committee:

"Any national banking association located in any other place may, with the approval of the Federal Reserve Board, and under such rules and regulations as such board may prescribe, establish branches within the limits of the county in which it is located, provided that no such branch shall be established unless the capital of the parent bank is at least equal to the aggregate of the amounts which would be required of each branch, under the provisions of section 5138, Revised Statutes, if it were organized as an independent association, together with the amount required of the parent bank itself by that section."

The second, third and fifth recommendations of the Federal Reserve Board are incorporated in a single bill by Mr. Glass, H. R. 13389. This bill changes section thirteen so that it reads as follows:

Every Federal reserve bank shall receive from any of its member banks or from the United States, when tendered, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon any solvent banks, domestic or foreign, payable upon presentation, and also, for collection, maturing bills; or, solely for purposes of exchange or collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks and drafts upon solvent banks or upon other Federal reserve banks, payable upon presentation. No such deposits carried for exchange purposes by one Federal reserve bank with another under the provisions of this section shall be counted or reported as a part of the reserve of the Federal reserve bank to whose credit it has been placed, and no such deposits shall be made except for the purpose of facilitating collection and with the express consent of the Federal Reserve Board, which shall from time to time fix the maximum average amount of such deposits for each bank.

After the third paragraph of section thirteen, the following paragraph is inserted:

Any Federal reserve bank may discount acceptances growing out of transactions involving the domestic shipment of goods, provided that every such acceptance shall relate to and be based upon a specific individual transaction and shall be protected by shipping documents attached thereto at the time of acceptance.

The provision as to advances by Federal reserve banks to member banks is as follows:

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this act, or by the deposit or pledge of bonds or notes of the United States.

The Glass provision for loans on farm land and real estate is as follows:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land, shall be made for a longer time than one year, nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section."

Section fourteen of the Reserve Act is amended by adding the following at the end of the first paragraph:

Provided, that the Federal Reserve Board may from time to time establish for each Federal reserve bank the maximum amount to be invested by such bank in such paper of the classes hereinbefore described without the indorsement of a member bank.

Mr. Glass has also introduced a bill, which seems to have been made a part of the program, to amend section six of the act "to define and fix the standard of value," known as the Act of March 14, 1900, as amended by the Act of March 4, 1907, and March 2, 1911. These words are added:

And provided further, that if requested by the Federal Reserve Board, or by any Federal reserve bank, or Federal reserve agent, the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of \$100,000, payable to order, and such latter certificates when issued payable to order shall not be subject to the limitations as to suspension of issue, or as to the denominations of outstanding certificates prescribed by this section.

Senator Owen has included the recommendations of the Federal Reserve Board in a single bill, S. 5078. His provisions for branch banks, for loans on farm land and for advances to member banks on their promissory notes are identical in wording with those of the House bills. There is, however, a wide variation between the Glass and Owen plans in the matter of deposits with reserve banks and combinations of banks to establish branches in foreign countries. As to acceptances the Owen bill provides as follows:

Any Federal reserve bank may discount acceptances of the kinds hereinafter described which have a maturity at the time of discount of not more than three months' sight and which are indorsed by at least one member bank.

Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight and which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents are attached at the time of acceptance;

or which are secured by a warehouse receipt or other such document affording security title covering readily marketable staples, or by the pledge of goods actually sold. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid up and unimpaired capital and surplus unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance, and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid up and unimpaired capital stock and surplus except by authority of the Federal Reserve Board, under such general regulations as said Board may prescribe, but not to exceed the capital stock and surplus of such bank, and such regulation shall apply to all banks alike, regardless of the amount of capital stock and surplus.

The second recommendation of the Federal Reserve Board is particularly covered in the following variation of the second paragraph of section sixteen:

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts and bills of exchange or bankers' acceptances, rediscounted or purchased under the provisions of section thirteen or fourteen, respectively, or, with the approval of the Federal Reserve Board, may be gold, or gold and such notes, drafts, bills of exchange or bankers' acceptances. Gold thus deposited as collateral shall be counted and included as part of the forty per centum reserve hereinafter required.

In what is numbered section twenty-five (a) Senator Owen prescribes a form of Federal incorporation for banks intending to do business in foreign countries. The first paragraph of the provision is an ample illustration of the plan and is as follows:

That banking corporations for carrying on the business of banking in foreign countries or dependencies of the United States and in aid of the commerce of the United States with foreign countries and to act when required as fiscal agents of the United States, may be formed by any number of persons, firms, companies or corporations, not less than five in number, which shall enter into articles of association upon such conditions and under such rules and regulations as may be prescribed by the Federal Reserve Board, which articles shall specify, in general terms, the object for which the banking corporation is formed, and may contain any other provision, not inconsistent with the provisions of this act, which the banking corporation may see fit to adopt for the regulation and conduct of its business and affairs. These articles shall be signed by the organizing persons, firms, companies or corporations, and shall be forwarded to the Federal Reserve Board to be filed and preserved in its office.

Among the powers of such a corporation are:

To purchase and sell or discount and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances or other evidences of debt; to purchase and sell securities, including securities of the United States or any state in the Union; to accept bills or drafts drawn upon it; to purchase and sell exchange, coin and bullion; to borrow and to lend money on real or personal security; to receive deposits and generally to exercise such powers as are incidental to the banking business as conducted in the country or countries in which it is doing business.

To establish and maintain for the transaction of its business a branch or branches, agency or agencies, in for-

eign countries, their dependencies or the dependencies of the United States at such places and under such rules and regulations as the Federal Reserve Board may prescribe; and to establish and maintain such additional branches or agencies as the Federal Reserve Board may from time to time authorize, even in countries or dependencies not specified in the original organization certificate.

To purchase and hold stock or other certificates of ownership in any other banking corporation, organized under the provisions of this act or chartered under the laws of any foreign country or of any state in the Union, and not doing a business in the United States, except such business as, in the judgment of the Federal Reserve Board, is necessarily incidental to its foreign business.

Any provisions of the Clayton Anti-Trust Act in conflict with the powers enumerated above are repealed.

Any provisions of the Clayton Anti-Trust Act in conflict with the powers enumerated above are repealed.

In section twenty-five (b) the Owen bill provided:

That any national bank possessing a capital and surplus of \$1,000,000 or more may purchase and own stock in foreign or domestic corporations, other than national banks, which are authorized by their charter to do a banking business

in foreign countries: *Provided, however,* that the aggregate amount of stock so held by any one national bank shall not exceed ten per centum of the capital and surplus of such bank.

While there are apparently differences of opinion between the chairmen of the two committees on banking and currency, it is probable that there will be little difficulty in reaching harmony. Aside from the difference in the provisions as to the methods by which banks may combine to enter the foreign field, the most striking variation between the measures proposed is in regard to section thirteen. The Glass bill makes it obligatory upon Federal reserve banks to receive deposits of checks and drafts "upon any solvent banks, domestic or foreign," and also "for collection, maturing bills." The Federal reserve banks are also permitted to receive from other Federal reserve banks similar items upon solvent banks. This whole provision is obviously intended as a method of enlarging the scope of the check collection system and is to be considered in relation to the development of that plan.

U. S. CONSULS ASKED TO AID FOREIGN TRADE

In co-operation with other departments of the Government and for the purpose of "doing its bit" in the development of foreign trade, the State Department has sent the following letter to United States consuls:

Among the most important recent developments in the foreign trade of the United States is the increasing extent to which both the import and export trade are being financed by means of commercial letters of credit opened with American banks and dollar drafts drawn against these letters of credit and accepted and discounted in the United States.

Foreign banking capital, which has in the past been abundant and ready to supply the necessary means for financing international shipments, has now been largely withdrawn from this sphere of activity, owing partly to the restraint imposed upon the movement of capital by conditions of belligerency and partly to the fact that the resources of foreign banks have been so taken up in other directions as to leave but little for the uses of trade in the old-time channels.

Instances coming to the attention of the department show that merchants engaged in trade with the limited states frequently find themselves seriously handicapped by the impossibility of obtaining the commercial accommodation to which they have been accustomed in the past, not knowing that they may now turn for this accommodation to banks in the United States.

By the Federal Reserve Act of 1914 national banks were empowered to accept drafts based on import and export transactions, and the functions of many state banks have been similarly enlarged, both by recent state legislation and by the initiative of the banks themselves in cases where no distinct legal obstacle has existed, with the result that there is now a well developed discount market in the United States for bankers acceptances and for other forms of commercial paper used to finance import and export transactions.

It is desired that consular officers employ suitable means to bring these facts, informally and as convenient opportunity presents, to the attention of the local bankers and business men in their districts, advising

them that they can now, through any one of a number of responsible American banks of large capital, obtain facilities for financing shipments to or from the United States in the same way that they have formerly done through European banks. Their attention may be invited at the same time to the fact that rates of interest on commercial paper are now lower in the United States than anywhere else in the world.

To assist consular officers in answering inquiries for the names of particular banks prepared to do an acceptance business, a list is appended of those national banks which have been granted full acceptance powers by the Federal Reserve Board.

National banks which have been granted full acceptance powers by the Federal Reserve Board are:

First National Bank, Boston, Mass.; National Shawmut Bank, Boston, Mass.; Second National Bank, Boston, Mass.; American Exchange National Bank, New York; Bank of New York, N. B. A., New York; Merchants Exchange National Bank, New York; Mechanics & Metals National Bank, New York; Philadelphia National Bank, Philadelphia, Pa.; First National Bank, Baltimore, Md.; Merchants & Mechanics National Bank, Baltimore, Md.; Bank of Charleston, N. B. A., Charleston, S. C.; Merchants National Bank, Hampton, Va.; Merchants National Bank, Richmond, Va.; Whitney-Central National Bank, New Orleans, La.; Commercial National Bank, New Orleans, La.; First National Bank, Chicago; First National Bank, Hutchinson, Kans.; First National Bank, St. Joseph, Mo.; Crocker National Bank, San Francisco, Cal.; Anglo and London-Paris National Bank, San Francisco, Cal.; First National Bank, San Francisco, Cal.; Wells-Fargo Nevada National Bank, San Francisco, Cal.; Bank of California, N. A., San Francisco, Cal.; First National Bank, Portland, Ore.

E. C. McDOUGAL TELLS WHY STATE BANKS DO NOT JOIN THE FEDERAL RESERVE SYSTEM

Why state banks are not joining the Federal reserve system is a question frequently asked and as frequently answered, but rarely with the keen insight displayed by Elliott C. McDougal, of Buffalo, N. Y., in a statement prepared for the JOURNAL-BULLETIN. Without wasting words in stating any grievances that may be held by state banks, Mr. McDougal takes up at once those features of the reserve system which in themselves are objectionable from the standpoint of good banking practice and proceeds to a series of constructive criticisms of both the statute and its administration.

Mr. McDougal is president of the newly formed Association of the State Banks of the State of New York, and chairman of the central council representing the associated bodies of trust companies, state banks and savings banks in New York, and therefore is entitled to speak with a weight of authority unique among state institutions. His statement follows:

By Elliott C. McDougal

Were the Federal Reserve Board absolutely independent of politics, no suggestion for amendments to our present Federal Reserve Law should be seriously considered by Congress until it had met with the approval of the Federal Reserve Board and the Advisory Council. Unfortunately, one of the most necessary amendments has been entirely ignored by the Federal Reserve Board in its recommendations to Congress. That amendment should provide for the absolute abolishment of the *ex officio* positions which the Secretary of the Treasury and the Comptroller of the Currency hold on the Federal Reserve Board. So long as they are members, the system cannot be kept out of politics. This is so self-evident that argument is unnecessary.

Now that we have the Federal Reserve Board, the office of Comptroller of the Currency should be abolished. There is no necessity for both. The maintenance of the office leads to unbusiness-like division of authority with consequent inefficient administration.

Abolish the office of Federal reserve agent. Whether the United States be relieved of its obligation upon the Federal reserve notes or not, in any event, there is no real danger of damage to the United States in allowing the Federal reserve banks to keep the commercial paper and gold which cover the Federal reserve notes in their own vaults. Make these notes redeemable in gold and in nothing else. Make them redeemable at the Federal reserve banks and at their branches and nowhere else. This would simplify the machinery in connection with the issuance and redemption of notes. Even more important than elasticity of issue is elasticity of redemption. The public should be educated in the habit of sending these notes for redemption to the Federal reserve banks instead of to Washington. The nearer the issuance and redemption of our currency can approach to the automatic issuance and redemption of checks, which

have been brought to so high a perfection in this country that they operate almost without notice, the less the danger of inflation. A Federal reserve note should be issued only when needed and redeemed as soon as it has served the purpose for which it was issued.

On some broad and comprehensive plan which shall be just to all conflicting interests, United States Treasury notes, United States gold certificates, United States silver certificates, national bank notes, Federal reserve notes which are the obligations of the United States, and Federal reserve notes secured by government bonds, commercial paper, or collateral of any name and nature deposited with a Federal reserve agent, should be abolished. They should be replaced by only two classes of notes: Those issued by a Federal Reserve Bank solely upon its credit and covered by commercial paper and gold or by gold alone in its own vaults upon which cover the holders of these notes shall have no specific lien, and of gold certificates issued by a Federal reserve bank, dollar for dollar, for gold deposited upon which gold the holders of certificates shall have a specific lien, the certificates being practically warehouse receipts for gold. Done simply, in a businesslike way, without red tape, without any endeavor to provide specifically and laboriously for many possible contingencies which never may arise, this momentous change can, at the present time—and never in the history of this country was there a more propitious time—be effected with practically no disturbance and almost without notice. I am inclined to believe that the rate of taxation upon Federal reserve credit notes should rise more sharply as the gold reserve drops than is at present provided. There is more danger of too much currency than of too little. We now have in circulation more paper currency than this country needs. This condition may lead to real danger should the war in Europe suddenly cease and the balance of trade suddenly be reversed before we perfect our currency system. In that case, we might be compelled to ship hundreds of millions in gold. Where there is an excess of circulating medium, the best money always first leaves the country.

The present law provides for a certain reserve upon deposits and then provides that the Federal Reserve Board may suspend the reserve requirements in case of necessity and fix the tax upon the deficiency in reserves. In other words, the law handles half of the situation and leaves the Federal Reserve Board to handle the other half. The law should provide for no reserves and leave the matter entirely to the discretion of the Federal Reserve Board, or it should fix the reserve against deposits at a good round figure—say fifty per cent.—with a definitely determined sharply rising scale of taxation on every fractional drop below the legal reserve so that, by the time the reserve had dropped to twenty-five per cent, or thirty per cent., the rate of taxation on the deficit would have risen to say fifteen per cent. Sub-

ject to such a law, the boards of the Federal reserve banks should have a legal right to use their reserves as they pleased. Under such a system inflation would be impossible. The automatic rise in the rate of taxation would result in a correspondingly automatic check to expansion which would be more effective and unerring than the combined wisdom of all the bankers in this country.

The collection system of the Federal reserve banks is not a success and cannot be a success until member banks are obliged to remit at par for checks upon themselves. Any amendment compelling this would be a real hardship to very many country banks to whom the revenue from remittance charges upon checks upon themselves forms a large proportion of their yearly net returns. At the present time no practicable solution of this question is in sight.

If necessary, allow Federal reserve banks to lend money freely in the open market. This is not in accordance with the theory on which the Federal reserve system was established and would be opposed, too, by member banks with which the Federal reserve banks can become controlling factors in the money market and effectively can regulate the exportation and importation of gold simply by exercising their present powers. Before deciding that such an amendment is necessary, the present powers should have a fair trial in normal times. If experience shows that they are not sufficient, there should be no hesitation in giving Federal reserve banks the right to deal in the open market by making direct loans to the public.

There are some theoretical objections to the powers of the Federal Reserve Board which, in practice, have worked fairly well. The Federal Reserve Board has the power to remove any officer or director of a Federal reserve bank. It has been urged that, although two-thirds of the directors of each Federal reserve bank are elected by the stockholders, and although apparently the stockholding banks control, every director works with a collar around his neck to which is attached a chain, the other end of which is in the hands of the Federal Reserve Board. Theoretically, this is bad organization. Practically, because of the good sense of the Federal Reserve Board, it appears to have been harmless.

Another theoretical objection is that the administrative powers of the Federal reserve banks appear to be divided between the Federal Reserve Board and the members of the Federal reserve banks. Theoretically, this is bad organization. Practically, it has worked fairly well.

The Federal Reserve Board is every day becoming a better board as it gains in experience. Relieved of its *ex officio* members and made an absolutely independent board, it would be of still greater service to the banking system of this country. It would command the entire confidence of the public. It would be impossible for any such board not in politics to come in daily contact with the problems which face it without being sobered by its responsibilities and without becoming so interested in its work that its natural impulse always would be to do what from a business standpoint was best.

COST OF BANK EXAMINATIONS

During the past year there has been a constant and steady wail from the national banks on account of the heavy assessments levied by the Comptroller of the Currency for examinations.

These charges were proportionate in every case, being based on a regulation cited in a circular letter issued by the Comptroller about a year ago, which provided that the bank examined was to be assessed for the cost of the examination, on the basis of its total gross assets at the time of the examination, at the rate of \$20 for the first \$25,000 of assets and three cents per thousand for all additional assets.

To many banks the result of this calculation was appalling. Bank directors were called together, and many banks protested against the payment of what they considered an exorbitant fee, for in many cases the charges amounted to two and a half or three times the amount heretofore paid for the same work. Banks which had formerly paid \$400 or \$500 for an examination were, under the new regulation, assessed \$1,200 or \$1,500 for the same service.

As an example, a bank in a reserve city with total resources of \$50,000,000 would be assessed \$1,519.25, and it would take seven men, whose combined salaries totaled \$100 a day, three days to do the work. This would

indicate that the profit to the Department on this particular transaction would be about \$1,200, and if two examinations were made a year, the profit over and above the actual amount paid to the examiners would be \$2,400. This is a fair example, and if the cost of examining the total resources of all the national banks in all reserve cities were calculated on the same basis, there would remain an enormous surplus over the amount paid to the examiners in these reserve cities by the Government—an amount presumably to be used to defray the expense of examining outlying banks which are not paying the real cost of their examination.

Section 21 of the Federal Reserve Act provides that "The Comptroller of the Currency * * * shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary * * *."

"The expense of the examinations * * * shall be assessed by the Comptroller upon the banks examined in proportion to assets held by the banks upon the dates of examination of the various banks."

According to our interpretation of the law, as cited above, the proper way of computing the basis for examination charges is to find out what has been the actual expense of examining all of the national banks and then

apportion the cost among the banks, according to their resources at the time of examination.

On account of the great increase in the charges for examinations in all banks, it has seemed to many that the Comptroller has not followed this rule, but has levied an arbitrary rate for each examination, without reference to the cost of examining the entire system. The total resources of all the national banks amount, in round figures, to \$13,500,000,000, and if the charge for examinations were but three cents per thousand, flat, the sum raised would be \$415,000 at each examination, or \$830,000 for two examinations in one year as required by law. Now it would appear that a sum in excess of this amount was estimated by the Comptroller's office as the amount necessary to cover the examination when the charge of three cents per thousand was fixed a year ago, but by referring to the Second Annual Report of the Federal Reserve Board for the year ending December 31, 1915, it is seen that the combined salaries of the examining staff for the entire country amounted to only \$396,000 for the year. Thus, if the two examinations, as required by law, had been made during the year 1915, and the charges collected at the rates fixed by the Comptroller in his circular, there would have been a surplus of nearly \$500,000 in excess of the actual sal-

aries paid to the examiners. The question which bankers are now asking is, how could any one be so far away in estimating the cost of the examinations, when it was known just how many men were to be used and the amount of salary each was to receive?

It may be welcome news to national bankers, however, that the rate has been cut, although we have heard of no bank which has received official notification from the Comptroller regarding the reduction.

In the *Federal Reserve Bulletin* for March appears a tabulation purporting to show the cost of examinations before and since the passage of the Federal Reserve Act. Not one of the examples given in the tabulation squares with the charges fixed by the Comptroller in his circular letter of February, 1915, but an official communication received March 10 from H. Parker Willis, Secretary of the Federal Reserve Board, states that the present rate of charge is \$25 for the first \$25,000 of assets and two cents per thousand for all additional assets, and it is upon this basis that the figures printed in the *Bulletin* were calculated. This is good news indeed, but even at this rate the banks will pay nearly \$200,000 in excess of the salaries of the examiners. Why is this?—*The Financial Age*.

MOVEMENT FOR A STATE BANK SECTION

A movement for the organization of a State Bank Section in the American Bankers Association has been started by a number of prominent state bankers in the west, who have issued a call for a meeting to be held at Kansas City on Monday, September 25, convention week. The sentiment for a new Section appears to be especially strong in those states where state banks predominate and arises from the fact that this class of banks is the only one not represented by a separate organization within the parent association.

Those who are understood to be fostering the movement are: John H. Puelicher of Milwaukee, John H. Johnson of Detroit, Craig B. Hazlewood of Chicago, J. H. Ingwersen of Clinton, Iowa, George Rogers of Little Rock, Dwight Armstrong of Memphis, Ray F. McNally of St. Louis, W. F. McLane of Minneapolis, R. L. Rutter of Spokane and James Dinkins of Gretna, La. The secretary to the organization committee is Craig B. Hazlewood, Union Trust Co., Chicago, with whom state bankers who are interested may communicate.

PHENOMENAL PROFITS FROM SHIPPING

The phenomenal profits derived from shipping continue to be a sensational feature of the situation in Japan. It is reported that during the last business term the Nippon Yusen Kaisha made a profit of some five and one-half millions as against a profit of about two and one-half millions recorded for the previous term, and paid a dividend of fifteen per cent. The Toyo Kisen Kaisha, which had been losing, accumulated during the last term a reserve of over one million and paid a dividend of twelve per cent. The smaller companies as well as private owners are reaping a harvest. The Meiji

Marine Transport Company with a capital of only 225,000 yen, from January to October last, had a gross income of 1,000,000 yen and cleared a profit of 648,000 yen. The Uchida Steamship Company, with a capital of 250,000 yen, paid a 600 per cent. dividend for the last term. The French ambassador has made special application to the government of Japan for the charter of several steamships for transport service. The Japanese authorities are doing what they can to respond, but Japanese shippers are so well satisfied with their profits that they think it unwise to speculate further afield.

THE WORLD'S STOCK OF COIN AND BULLION

RECENT INFLUX INTO THE U. S.—ITS INFLUENCE ON FINANCE AND TRADE

How much gold and silver have the mines of the world produced since the discovery of America? How much of these metals was there in Europe at the time of the discovery? How much was procured from Asia after the opening of sea commerce with India, China and Japan? How much is there now visible in the western world? How much in the eastern? What has become of the remainder? How much has been lost by accident at sea? How much buried in the earth beyond recovery? How much lost through the wear and tear of coins and how much absorbed in the arts?

Intelligent answers to these questions, especially as to the visible stock on hand in the commercial world, can scarcely fail to command the interest of the banking community; for upon it rests a superstructure of credit, which, however carefully built up and poised, must always have a metallic base well within the realm of safety.

To the uninstructed eye the leaning towers of Pisa and Bologna seem ready to fall; but they have stood for centuries and bid fair to stand for many more centuries; simply because they are knowingly and scientifically constructed within the mechanical line of safety. Finance has a similar line, which depends not upon the laws of gravitation, but the strength and preparedness of government.

I. Production of the precious metals since the discovery of America.

The plunder, and afterwards the mining, of gold and silver in America were both carefully guarded and registered by the Spanish and Portuguese governments, which derived from them a tax of ten, afterwards five per cent. upon acquisition (*the quinto*), besides an insurance or convoy duty (*haberia*) on transportation, and additional duties (*derechos*) on mintage. These records were thoroughly scrutinized by Humboldt in Latin America and by the Abbé Raynal in Europe, with such agreement as to leave no doubt of their trustworthiness. Researches made by later investigators, which include the precious metals product of Brazil, the United States, Australasia, Africa, Europe, Siberia, the Orient, etc., bring the results down to date. Including about \$150,000,000, which is believed to represent the visible stock of Europe at the opening of the sixteenth century; including the plunder of the Orient in the sixteenth and seventeenth centuries; taking due account of the gains and losses by commerce between the East and West; including the loss of treasure sunk in ships; including the recovery of gold and silver plate and jewelry into coins; making allowance for the wear and tear of coins; beside such other allowances as seemed necessary to render the account complete; the final result of these investigations, not by those theorists who never saw a mine, or those others who ignored the extensive plunder of China, Japan and India, or who were biased by national prejudice; not by such theorists, but by practical men especially qualified for the task and

having the records before them; the final result of these investigations is that the total acquisitions of gold and silver by the European world down to date have been about \$30,000,000,000; the metal being computed at the customary American mint price of \$20.67 per ounce Troy of fine gold and \$1.29 per ounce Troy of fine silver.

II. Of this vast amount there remain in the western world, *i. e.*, Europe and its colonies, excluding India, and in America, excluding the Philippines, in the form of coin and bullion awaiting coinage, whether in banks and treasuries or in circulation, about \$10,000,000,000, or one-third of the whole amount acquired.

To those who may be inclined to regard this estimate of the stock on hand as too small it may be necessary to recall the vast strides which paper money has made in the European world since the peace settlements of a century ago. We are aware of no estimates of the kind quite so early as the Peace of Paris or the Peace of Ghent (both in 1814), but for 1829 there is one extant which exhibits a population for the European world (including America and the colonies) of 240,000,000; coined money in circulation \$345,000,000 and paper money \$115,000,000; the latter forming twenty-five per cent. of the whole stock of circulating money. In 1896 the population was 480,000,000; coin in circulation \$3,000,000,000 (besides \$1,000,000,000 in reserve) and \$3,720,000,000 in paper; the latter forming over fifty-five per cent. of the whole circulation. This was twenty years ago. At the present time, though no reliable estimates are at hand, the proportion of paper money is evidently greater.

Another point must be borne in mind: the universal proneness to exaggerate on this subject. For example, our treasury circulars estimate the gold in circulation in this country (exclusive of the enormous reserves in banks and treasuries) at several hundred millions; whereas, besides \$20,000,000 or \$30,000,000 circulating in the mining states, there is no gold at all circulating in this country, nor has there been for many years; nor is it wanted, paper money being much more convenient and the strength of our Government and of our banking institutions being amply sufficient to support the legal value of its paper.

In short, any distrust of the estimate of \$10,000,000,000 for the visible metallic stock of the European or western world would be quickly dispelled were any serious attempt made to locate the metal.

III. It follows that the remaining portion of the acquisitions of the precious metals since the discovery of America, about \$20,000,000,000, has either gone into the arts or has been worn out, or else exported to the Orient. In order to determine about how much of this sum has gone into the arts it is necessary first to compute the known treasure of the eastern world. The remainder must have either gone into the arts, suffered from accident or attrition, or found its way back into the earth.

IV. Outside of India and Japan the metallic stock of the Oriental world is comparatively small. In China gold and silver money is only employed at the treaty ports, chiefly in dealings with Europeans. A comparatively small amount of *sycee* (bullion) silver is used in the interior. The principal money of the empire is made of copper, or consists of paper notes, or checks representing them. India has a metallic stock, including treasuries, banks and circulation, of perhaps \$300,000,000, Japan \$200,000,000, China \$30,000,000 and the remaining Oriental states (Persia, Afghanistan, Turkestan, Indo-China, Cochinchina, Siam, Tonkin, etc.) about \$70,000,000; total, \$600,000,000. However, as the exports of silver to the Orient during the past decade have been unusually heavy, let the visible Oriental stock on hand be computed at the round figure of \$1,000,000,000. This would leave \$19,000,000,000 to be accounted for.

V. The consumption of gold and silver in the arts was first investigated by Mr. William Jacob, secretary to the Bullion Committee of 1810. As his researches were confined to the arts in Europe, where the proportion thus consumed at that period was small compared with other periods, and still smaller when compared with the consumption for such purpose in the Orient, they are now of little worth. Meanwhile, positions have become reversed. The metallic treasures of the world have shifted from east to west, and with them the principal sources of consumption in the arts. Oriental affluence is a thing of the past.

We are aware of no data upon which to found a reliable estimate of the proportions of the precious metals buried, lost or utilized during this shifting of the world's metallic center of gravity; in other words, how much of the missing \$19,000,000,000 is to be accounted for today unburied.

According to the latest official reports there were furnished by the mints of the United States for use in manufacture and the arts from 1880 to 1914, inclusive, \$827,000,000 worth of gold and 485,500,000 fine ounces of silver, say \$630,000,000 worth at mint price; together, \$1,457,000,000, or one-third of the entire product of our precious metal mined during the same period. If this proportion were applied to the \$30,000,000,000 of world's product since the discovery of America, it would follow that the arts throughout the world have swallowed \$10,000,000,000, leaving for lost or buried treasure (the latter principally in India and other Oriental states) the \$9,000,000,000 unaccounted for; but whether near or far from the truth, this is an inference of little worth. On the one hand, ostentation is silent; on the other, the earth has its secrets.

But lest it be imagined that our bangles and chains of gold or our table services of solid silver afford extraordinary evidences of luxury, let us recount the affluence of the Portuguese hero who plundered Malacca and Muscat in the sixteenth century. Villars informs us that, upon his return to Lisbon, Albuquerque exhibited among his own private property no less than 120 dozen silver plates, 500 large silver dishes, 500 small silver

dishes and forty silver *ladders* with which to mount to his silver repositories; besides numerous other articles of the same precious metal. (Memoires, ed. 1861, p. 7; Hist. Precious Metals, ed. 1902, p. 325.)

Although allusion to the practice of burying metallic money has been confined in this article to India alone, it must not be assumed that India is the only country where it prevails. It is common to all countries where the people are divided, or where the government is weak or unpopular. It even prevails to some extent where such conditions are unknown. During the examination of a western bank some years ago it transpired that very considerable sums had been deposited by farmers, chiefly of foreign nationality, who had brought this custom from their native country and only abandoned it after a sufficient residence in the United States had dissipated all fears for the safety of their treasure. Nearly all of it was in gold, mostly in earthen crocks, some even concealed in gas pipes; a picture of one of these queer receptacles appearing in a St. Louis paper.

Shifting of the world's metallic treasure from the Orient to the Occident (generally) has undergone a still further movement westward since the beginning of the great European war. It has been largely shifted from Europe to America, chiefly to this country. According to the latest mint report, the stock of gold and silver coin and bullion in the United States June 30, 1915, was \$1,973,000,000 gold and \$758,000,000 silver, the latter at mint price, which is more than double the market price. Confining remarks to the gold stock alone, this has been increased by production from the mines and by imports over exports, from June 30 to December 31, 1915, to the extent of about \$327,000,000, making the total stock of gold coin and gold bullion in the United States January 1, 1916, about \$2,300,000,000.

It may be reasonably assumed that the new gold, any more than the old gold, will not enter into the circulation; that the ordinary and Panama Canal disbursements of the Federal Government, which in the fiscal year 1914 were \$762,000,000 and in 1915 were \$778,000,000, will be increased this year to nearly \$800,000,000, and in 1917 to possibly \$920,000,000,* and that taxation will be increased to at least a corresponding extent; in other words, that the Government will absorb a marked proportion of the new gold in the form of increased revenues.

Among the problems to which the acquisition of the new gold is likely to give rise are its disposition by the Government of the portion that may fall to it through taxation and the disposition of the remainder by the banks in whose hands the bulk of it will remain. Of one result we may be quite confident: the center of gravity of the world's treasure will never return to Europe. For many reasons, some of which are connected with mining, its transference to the United States is permanent and definitive.

A. D.

*The Treasury estimates for 1916 and 1917 were \$742,000,000 and \$909,000,000, respectively; but these were made before either "preparedness" or the Mexican "punitive expedition" seemed necessary.

FOREIGN TRADE AND THE NATIONAL BANKS

The Federal Legislative Committee of the American Bankers Association and the Executive Committee of the National Bank Section joined last month in sending a memorandum to the Federal Reserve Board on the subject of facilitating foreign trade through national banks, with the request that action be taken looking toward desired legislation. The memorandum in full follows:

TO THE FEDERAL RESERVE BOARD,
Washington, D. C.

The Federal Legislative Committee of the American Bankers Association and the Executive Committee of the National Bank Section, American Bankers Association, submit the following memorandum with reference to the subject of facilitating foreign trade through national banks and ask that you take action looking to legislation by Congress along the lines indicated.

The Federal Reserve Act permits a national bank having \$1,000,000 capital or over to establish branches in foreign countries on obtaining the approval of the Federal Reserve Board. This method of providing for the foreign trade of the national banks is unsatisfactory for the following reasons:

(1) Few national banks have strength sufficient to enable them to enter the field of foreign banking by means of branches, or command enough business to make branches pay.

(2) The business will therefore concentrate itself in the hands of a few large institutions and private banking firms, which makes the smaller banks dependent upon them. This is undesirable and un-American.

(3) The entire capital of a national bank with branches in a foreign country is at the risk of any branch.

(4) The laws, local customs and sentiment of some nations are such as to make it impracticable to open and operate branches of an American bank there.

(5) Business with foreign countries originates in, or is destined to, hundreds of different points in foreign countries. Branch banks could not be operated with profit at all these points, hence part of the business would have to be done through local institutions, or foreign banks locally established.

(6) The difficulty of securing competent managers for branch banks, having the necessary experience and knowledge of local conditions where the branch is established, is very great and it will take years to educate men for these positions.

(7) The risk of operating a branch at a great distance, when discretion must be given to the local management, is excessive and almost impossible of control.

(8) Branch banks encounter the local prejudice against foreigners as well as the competition of banks already established, and will find it difficult to secure first-class business.

(9) On account of the prejudice against foreigners and the jealousies of foreign banks and their managers locally established, accurate information about local firms will be difficult to secure and, until the local manager has learned by actual experience, the business available to him will be done at undue risk.

We are therefore firmly of the opinion that the best results will be obtained for all national banks if the Federal Reserve Act be so amended as to give national banks, in addition to the power they now have of estab-

lishing branches in foreign countries, permission to invest to a limited extent in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any state and engaged in international and foreign banking. To accomplish this end we suggest that Section No. 25 of the Federal Reserve Act be amended and re-enacted to read as follows:

PROPOSED AMENDMENT TO SECTION 25 OF THE FEDERAL RESERVE ACT

Strike out the whole of the said section and substitute the following:

"SECTION 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more, may file application with the Federal Reserve Board upon such conditions and under such regulations as may be prescribed by the said Board, for permission to exercise either or both of the following powers:

"1. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

"2. To invest an amount not exceeding ten per centum of its paid in capital stock in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any state thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership or control of local institutions in foreign countries, or in such dependencies or insular possessions.

"Such application shall specify the name and capital of the banking association filing it, the powers applied for and the place or places where the banking operations proposed are to be carried on. The Federal Reserve Board shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient.

"Every national banking association which shall receive authority to establish foreign branches or to invest in the capital stock of such banks or corporations shall be required at all times to furnish information concerning the condition of such branches, banks or corporations to the Comptroller of the Currency upon demand, and the Federal Reserve Board may order special examinations of the said foreign branches, banks or corporations at such time or times as it may deem best. Every such national banking association shall conduct the accounts of each foreign branch independently of the accounts of other foreign branches established by it and of its home office, and shall at the end of each fiscal period transfer to its general ledger the profit or loss accruing at each branch as a separate item.

"Any director or other officer, agent or employee of any member bank may be a director of any such bank or corporation above mentioned in the capital stock of which such member bank shall have invested as hereinbefore provided."

This would effect the following changes in the existing Section 25:

(1) It would amend the present section as to branches by eliminating the provision concerning the amount of capital to be set aside for the conduct of foreign business. This provision is needless, as the entire capital of the bank is at the risk of such business.

(2) It would add provisions permitting the investment by national banks in the stock of banks or corporations engaged in foreign trade.

(3) It would also add a provision permitting a director or other officer of a member bank to be a director in such bank or corporation in which the member bank is a stockholder.

We would urge that the above be enacted into law for the following reasons:

(1) It would enable a number of banks in this country, which would be unable alone to enter the field of foreign banking, to join in the establishment of a bank or banks to do this business, and by co-operation to furnish sufficient capital and support to maintain and carry on the business and promote the foreign trade of our country generally.

(2) The liability of national banks would be limited to the amount of their investment and any risks incurred would fall on all member banks in proportion to their stock ownership.

(3) Any national bank could, through the foreign trade bank in which it would be a part owner, accommodate its customers without the intervention of any other bank or without sending the business through a competing bank.

(4) The necessity that a bank engaged in trade with various countries adapt itself to the conditions and laws of a number of different countries, makes it essential that it have the greatest freedom of operation. It may find it advisable to establish branches, to establish agencies, to form connection with a bank or banks already established, or to invest in the stock of institutions already established, in foreign countries.

(5) The return business from the agents or local banks would pass through the foreign trade bank, which in turn would distribute the business in the United States among its member bank stockholders.

(6) Through its local connections in other countries the foreign trade bank would be in a position to secure accurate information with regard to local firms and conditions for the benefit of its stockholding banks.

(7) The foreign trade bank would be in a position to finance the imports to the United States from these countries by means of acceptance credits issued by its bank stockholders and, because of the foreign bank's intimate knowledge of the foreign situation, such credits could be issued on a sound basis and without great risk. This business would never come to the member bank through the foreign branch of another American bank.

(8) A national bank would have the power, if necessary, to buy stock in more than one foreign trade

bank. Developments in our foreign trade may show the need for a number of such banks. Foreign trade banks to specialize in particular sections, such as Central America or the Orient, may become advisable; or the banks in a particular section of our country may feel it advisable to join in establishing a foreign trade bank suited to their own particular needs. Having several foreign trade banks in existence would not permit any monopoly in the business.

(9) Reciprocal arrangements between these foreign trade banks would extend their scope and usefulness without undue expense.

(10) Economy of operation, secured by the co-operation of banks in this country, would make these foreign trade banks profitable to their stockholders.

(11) Even small banks, by a moderate investment in a foreign trade bank, would be enabled to better serve their customers and do their share towards increasing the foreign trade of the United States instead of this development being concentrated in the hands of a few large institutions.

(12) As the foreign trade banks would not do a deposit business, and no domestic business except as incidental to its foreign business, they would not in any way compete with the national banks, but only serve them.

(13) Foreign trade banks must be free to adapt their method of operation to conform to local conditions and customs, otherwise they cannot get the business of the foreign country. Handling the trade of a developing country requires many forms of financing not needed in a richer or more highly developed country. Our banks must be able to compete with banks of other countries which can do business in the way the particular country requires.

For the above reasons we feel that it is important that action be taken by Congress, at its present session, along the lines indicated to the end that our foreign trade may have the fullest co-operation and assistance of the banks of the country, and thus materially enhance its development.

Respectfully submitted,

C. A. HINSCH,

Chairman Committee on Federal Legislation.

W. M. VAN DEUSEN,

For the Executive Committee, National Bank Section.

(Signed by the members of both committees.)

LACK OF SHIPS CLOGS ORIENTAL TRADE

Heavy demands for Pacific Ocean bottoms for East Indian products and scarcity of vessels in the Oriental trade have brought stagnation to certain South China industries that depend on export business to the United States, say consular reports from Hong Kong. Virtually no ordinary Chinese merchandise is going forward

to America. The general freight situation in all Eastern ports is said to be serious. Every warehouse in Hong Kong is jammed with goods awaiting shipment to the United States. Freight rates have been increased four times within a month and only goods in greatest demand are being moved.



STATUS OF THE RIGGS BANK CASE

By L. AMES BROWN

Although nearly a year has gone by since the Riggs National Bank of Washington, D. C., procured a temporary injunction against alleged persecution by Comptroller of the Currency John Skelton Williams and Secretary of the Treasury William G. McAdoo, the District Supreme Court has not yet decided whether the issue presented in the bank's petition comes within the jurisdiction of that tribunal. The long pendency of the court's decision in the case is a matter of increasing importance to the Washington institution because the time is drawing near when the bank must apply for a renewal of its charter. Whether or not a decision will be rendered before July 1, the date when the present charter expires, is a question of admitted concern to the officers of the bank, for speculative discussions of the matter in banking circles in Washington and New York have not overlooked the possibility that Comptroller of the Currency Williams may see fit to refuse a new charter to the bank, on the ground that three of its officers are under indictment for perjury. Another phase of the long pendency of the court's decision is the fact that even though the court sustain the government demurrer and hold itself without competent jurisdiction of the case, it will be practically impossible for the bank to secure a decision from the Court of Appeals before the national elections in November.

Still another facet of the Riggs case is the opinion entertained by the bank's advisers that a decision by Justice McCoy of the District Supreme Court that he is without jurisdiction would quash automatically the perjury indictments now pending against the president, vice-president and former cashier of the bank. This opinion is based upon the fact that John E. Lasky, United States District Attorney for the District of Columbia, alleged in the government's argument in the civil suit that the District Court was without jurisdiction in the premises, while in each of the indictments for perjury drawn by the District Attorney the phraseology "in a court of competent jurisdiction" was used in respect of the alleged offense of the bank's officers. This is one of the intricacies of the case which I have not seen touched upon in any of the published discussions of it.

In view of the general importance attached to the case by the banking community and of its attenuation, I have prepared the following chronology of the developments preliminary and subsequent to the filing of the original petition for an injunction in the Supreme Court of the District of Columbia:

1. A few weeks after he had taken the oath of office, Secretary of the Treasury McAdoo announced that by his order Lottie Taylor, an employee of the National City Bank of New York and the Riggs Bank of Washington, had been deprived of the privilege of desk room in the office of the Comptroller of the Currency. Miss Taylor had been used by the banks to obtain information from the tabulations of the regular statements of condition of the banks, which, it has been pointed out, was

open to all banking representatives and newspaper correspondents who cared to apply for it at the office of the comptroller.

2. In December, 1913, *The New York Tribune* published a series of Washington despatches criticising John Skelton Williams, then Assistant Secretary of the Treasury, for the policy he had carried out in connection with the consolidation of the Munsey Trust Company and the United States Trust Company. The *Tribune* observed evidences of impropriety in Mr. Williams' conduct because of the fact that R. Lancaster Williams, a brother of John Skelton Williams, was then an active director of the bank. It frankly sought to forestall John Skelton Williams' confirmation as Comptroller of the Currency. Secretary McAdoo sent for President Charles C. Glover and Vice-President Ailes of the Riggs bank and charged them with responsibility for the *Tribune's* publication.

3. A few weeks thereafter Vice-President Ailes and Vice-President Flather testified before the Senate Committee on Banking and Currency opposing the confirmation of John Skelton Williams as Comptroller of the Currency.

4. In May, 1914, Secretary McAdoo withdrew all deposits from the Riggs National Bank.

5. About the same time Comptroller Williams assigned two bank examiners to the Riggs bank and thereafter for a considerable period kept two or four examiners almost constantly at work upon the books of the bank.

6. In May, 1915, Justice McCoy of the District Supreme Court granted a temporary injunction restraining Secretary McAdoo and Comptroller Williams from the continuance of an alleged persecution of the bank and prohibiting United States Treasurer Burke from turning into the general fund of the treasury the sum of \$5,000 due the bank as interest on United States bonds, which sum had been assessed as a fine against the bank by Comptroller Williams.

7. A week's hearing on the temporary injunction before Justice McCoy, culminating in a decision by him eliminating those sections of the injunction relating to the general charge of persecution and leaving only the order prohibiting the payment of \$5,000 interest into the general fund. The argument in the hearings was upon the government's demurrer as to the incompetency of the court's jurisdiction and it is on that question that the court is yet to hand down its decision. In the arguments on the demurrer the authorities cited were confined to five Supreme Court decisions. Should the court now decide that it possesses jurisdiction on the issues in the case it must then proceed to try it. Evidence will be taken from witnesses and the trial will go forward in customary procedure.

8. In course of the hearings before Justice McCoy in May, 1915, the bank filed an affidavit signed by President Glover, Vice-President H. H. Flather and Cashier W. J. Flather, stating that the bank had never "bought or sold stock short," the purpose of the affidavit being

to meet the charge made by Samuel Untermyer, of counsel for the government, that the bank had speculated in stocks. October 1, the Grand Jury returned in the District Court indictments against President Glover, Vice-President Flather and Cashier Flather charging perjury in the filing of the affidavit. These indictments never have come to trial. Counsel for the bank issued a statement charging that the indictments evidenced a continuance of the persecution of the bank. They expressed the opinion that any possibility of such indictments could have been removed by the insertion of the words "for its own account" following the phraseology already quoted from the affidavit.

On July 1, 1916, when the present charter of the bank expires, its officers may choose between filing an application for a renewal of charter and reorganization as a state bank. The latter step would involve the bank's

withdrawal from the Federal reserve system and its incorporation as a state institution, but it could continue to do business in the District of Columbia until such time as a national bank charter could be secured. While such a procedure would involve liquidation of the institution as a national bank and a transfer of its assets to a newly organized state bank, officers of the bank do not believe that any inconvenience would eventuate for the patrons of the bank. In the pendency of the case officers of the bank point proudly to the fact that in the past two years the bank's deposits have steadily increased and dividends of twenty-four per cent. have been paid on the capital stock. It is declared that even if nothing else has been accomplished, the fight made by the Riggs bank has sufficed to dispel the idea that a bank courts ruin by getting into a controversy with the Comptroller of the Currency.

COMPETING WITH CONGRESS

A new form of that ancient American institution—the Gold Brick—has been created as a result of the widespread agitation for rural credits laws. On the one hand, members of Congress have offered many measures and Congressional committees and commissions have labored at the problem of how to bring to the farmer the opportunity to finance his business of feeding the world. On the other hand, there probably is no class of professional men in the world the members of which keep in more constant touch with the rural population of the United States than that numerous body known in musical comedies as confidence men, and consequently when the farmer and his neighbor discovered how vital a thing to their existence and success a rural credits organization was, the confidence men were attuned to sense that want. It did not take them long to discover what was needed and but little time was required for the perfection of plans. Not being tied by parliamentary restrictions, they moved faster than Congress. The farmers wanted the support of a rural credits institution, and a rural credits institution they should have.

There have been some variations of the scheme. Some agents have said quite plainly that they represented private companies whose business it was to extend rural credits. Others declared that they came from Washington and represented the Rural Credits Department of the United States Government. Still other agents represented co-operative organizations. Of course, every scheme was talked to the farmer as being a sort of mutual assistance affair in which the farmer might insure crops and his prospects. But these plans almost invariably lack the co-operative features. First instalments of money are required of the farmer to prime the fount of beneficence which is to irrigate his future. The more clever schemes provided for quite steady weekly or monthly remittances by mail to continue so long as the luck held.

But complaints have naturally arisen and the De-

partment of Agriculture, the patron saint of the American farmer, has been appealed to for enlightenment. The Department is eager to protect the American farmer and has warned all husbandmen to beware of rural credit tricksters. The Department says, speaking of the complaints which have been received:

"In some of these letters the complaint is made that the agents selling the stock make misrepresentations as to when loans may be obtained by subscribers and that the companies later disclaim responsibility for the statements made by the agents. In a number of instances farmers seem to have gained the idea from the agent that they would be able to secure loans within a relatively short time, and express disappointment on realizing that they must wait for an indefinite period for the promised loan and go on making payments just the same on the stock which they have agreed to take.

"When farmers are confronted with a proposition of this character they should first read the prospectus and the contract very carefully and make sure that they know exactly what these mean, especially the contract. If the contract is so worded that its meaning is not clear after a careful reading, that in itself should be reason enough for extra caution. The agent's explanation of the contract is not a part of the contract, nor is his promise that the company will do things not specified in the contract by any means sure to be recognized by the company.

"Farmers ought first to find out what provision has been made for the protection of the interests of subscribers, either through responsible government supervision over the activities of the company or in any other way, and if they are in doubt they should consult competent advisers with regard to the responsibility of the company before paying over, or agreeing to pay over, their own good money. Always in the matter of subscription to stock in any kind of a company they should exercise caution."

H. J. D.

"NOTHING NEW UNDER THE SUN"

A treaty of commerce made February 24, 1496, between Henry VII of England and Philip, Archduke of Austria, sovereign of the Netherlands, contains two provisions which are strangely similar to the Brazilian coffee valorization scheme and the measure adopted by the British Government for the defense of its merchant marine in time of war; both of the twentieth century. As Philip was only eighteen years of age, the treaty, which was afterwards called *Intercursus Magnus* (in contradistinction to the *Intercursus Malus* of 1506, which Henry extorted from the same prince ten years later), was probably made by the advice of his ministers.

Previous to 1496 friendly intercourse had been so much interrupted that British products could find no vent in the Netherlands, and vast quantities were accumulated in the ports without purchasers. Whereupon, "The Merchant Adventurers, being a strong company and well under-set with rich men" * * * "took off these products of the kingdom, though they laid dead upon their hands for want of vent," until, by prompting the king to negotiate the *Intercursus Magnus*, they were marketed at highly remunerative prices in the Low Countries. Such was the British valorization scheme carried out at the time that Columbus was on his second voyage to America and hunting for gold in Hispaniola, to satisfy the cravings and demands of his avaricious sovereign, King Ferdinand.

The second article of the treaty provided that "merchants, mariners, etc., may, on both sides, carry weapons of defense in their ships" and store them in the ports "until they went on board again." And such, too, is the policy prescribed to the British merchant marine in the present great European war of 1916. (Anderson's Hist. of Commerce, i, 545.)

The same work also contains unmistakable indications of what would now be called a commercial trust, or a combination, or confederacy of persons or corporations to control the market, crush competition, and compel rivals in trade to accept their terms and bow to their dictation; or else retire from the trade.

"The Merchant Adventurers, though not dignified by this title under act of Parliament until 1505," were, nevertheless, a very ancient association, an off-shoot of

the Mercers Company of 1296. In the preamble to an act of Parliament 1497 (12 Henry VII), it is stated that they traded with their goods and merchandise in nearly all the seaports of Europe, "among others those of Flanders, Holland, Zealand, Brabant and other adjacent parts, under the obedience of the Archduke of Burgundy; and without being subject to exaction, fine, imposition, or contribution to, for, or by any English persons—*till now of late*, under the fellowship of the Mercers and others dwelling in London, by confederacy amongst themselves, for their own singular profit, contrary to every Englishman's liberty, contrary to all law, reason, charity, right and conscience, they have made an ordinance among themselves, to the prejudice of all other Englishmen, that no Englishman resorting to the said marts, shall either buy or sell any merchandise there, unless he shall have first compounded with and paid fine to the said Fellowship of merchants of London; upon pain of forfeiture to said fellowship of all their merchandise." This fine was originally demanded by the Fraternity of Thomas à Becket, Archbishop of Canterbury, at which time the said fine consisted of half a mark, or 6s. 8d. "By colour of such feigned holiness", it was continued down to a recent period when it was increased to 100 shillings Flemish. But now the said fellowship of London takes of every Englishman or young merchant, at the outset, a fine of forty pounds sterling, for permission to buy and sell his own goods! Whereby, being deterred from foreign sale, his merchandise has to be returned to London and sold at a loss; while the goods of said fellowship (the Trust) are sold at a monopoly price; by reason whereof the cities of our realm are fallen into great poverty, ruin and decay."

Upon these representations, the act of 1497 reduced the fine of the Mercers' fellowship (gentlemanly understanding, or secret unwritten trust), to ten marks, or six pounds thirteen and four pence, under very heavy penalties for infraction; and it declared the trade free of all other exactions; subject to the obedience of the Archduke of Burgundy, who at that time was Philip, married to the Princess Joana of Castile that very year, 1497. (Anderson's Hist. of Com., i. 550.) A. D.

IMPROVEMENTS AT GENERAL OFFICES

There has recently been completed in the general offices of the American Bankers Association at Five Nassau Street, New York, the installation of a new intercommunicating telephone system among the heads of departments. It is the Dictagraph machine and embodies one central or master station with several sub-stations. Each station consists of a small, compact instrument which fits into the desk. In addition to the receiver and transmitter there is a series of keys whereby any station on the circuit can be called at will. A

call from the central station to any substation produces in the latter instrument a flash from a small electric light, in addition to sounding the buzzer on the receiving instrument.

Since its installation the system has been proved to be a great time-saver and has aided materially in expediting the work of the Association offices. It supplants an old installation which was put in several years ago, but which had become obsolete and unworkable in addition to being very limited in scope.

ONE EFFICIENT GOVERNMENT OFFICER

Real administrative efficiency is so rare a quality among the political appointees of the Government at Washington that it attracts attention whenever displayed. Col. W. H. Osborn of North Carolina, the present Commissioner of Internal Revenue, has an official record which stamps him as one having the ability to perform the intricate and complex duties of an important administrative office, coupled with the knowledge of how to get along in politics. Commissioner Osborn's claim to the former part of this qualification is the fact that in the two years and eight months of his tenure \$15,000,000, which would have been lost to the Government through frauds or the withholding of taxes, has been collected or assessed through the activities of the Internal Revenue Service. His title as a politician, which is the outgrowth of a long experience in factional politics in North Carolina, was made secure by his participation in Woodrow Wilson's campaign for delegates in the south in 1912. North Carolinians who remember that fight will tell you that the Underwood leaders in North Carolina had "made hay" to the point where they were about to walk off with the state delegation, when Colonel Osborn was called into service by the national managers of the Wilson campaign.

Commissioner Osborn believes that there is no essential difference between the qualifications for political and administrative success. In either case success is due, he has frequently declared, to efficiency of organization. The commissioner modestly admits that he possesses a certain amount of ability as an organizer.

The several items in the saving to the Government which have been accomplished under Commissioner Osborn's administration are: \$6,987,584 of corporation tax and \$3,128,863 of personal income tax discovered to have been withheld from income tax returns; and \$4,675,561 of taxes due on fraudulently manufactured oleomargarine. To this is to be added an average monthly saving of \$30,000 in gaugers' fees. This latter saving is due to the discontinuance of assignments of gaugers to rectifying establishments, a step which Mr. Osborn declares has been taken without any resultant disadvantage to the Government. Since Commissioner Osborn took the oath of office April 28, 1913, the Internal Revenue Service has collected approximately \$1,090,000,000. The cost of collection for the fiscal year 1914 was \$15.25 per \$1,000. Various causes operated to increase this item to \$16.37 for the fiscal year 1915, but estimates for the present fiscal year which have been compiled by the commissioner indicate that certain administrative economies which are being tested out will reduce the cost of collecting \$1,000 to a sum less than \$15.25 for the fiscal year 1914. Should all of the \$15,000,000 discovered to have been withheld from the Government be collected by the commissioner, the sum will suffice to defray the cost of collecting the entire \$1,090,000,000 of government revenues derived from the internal revenue in the past three years.

In addition to the foregoing savings, Commissioner Osborn has launched a campaign against frauds committed by dealers in and manufacturers of cigars and cigarettes which treasury officials believe are now depriving the Government of several millions of annual revenue.

Commissioner Osborn has prepared the following statement as to his campaign against frauds:

"The most striking features in the campaign against frauds, by reason of their similarity and certain ramifications connecting them, naturally group themselves into three classes:

"1. Oleomargarine frauds through the use of palm oil and other artificial coloring or the admixture of oleomargarine and butter, the product being taxpaid as oleo free from artificial coloring, or not taxpaid at all;

"2. Frauds at registered distilleries through the use of excess material and the removal untaxpaid of spirits produced in excess of eighty per cent. of survey;

"3. Equalizing in distillery warehouses.

"1. Oleomargarine.

"The extent of the frauds in the first group is shown by the fact that in seven cases \$19,260,152.32 of tax was proved to have been evaded during the period from July 1, 1902, to the discovery of the frauds. Of this amount \$4,675,561.39 was within the statute of limitations and was assessed.

"This amount was far in excess of the total assets of the companies involved, but by distraint, forfeiture of the factories, compromises, and from the bonds, a total of \$809,722.79 has been collected, and it is confidently expected that from \$300,000 to \$400,000 more will be collected, an offer made by one interest to pay \$275,000 in compromise of claims having been rejected.

"2. Registered distilleries.

"The existence of extensive frauds by a group of distillers operating in Virginia with ramifications extending into Florida and Arkansas has been suspected for years, well informed revenue officers having estimated the frauds on the revenue in Virginia alone at as much as \$2,000,000 a year.

"Early in the spring of 1915 a distillery in Arkansas, the proprietors of which had formerly been connected with distilleries in North Carolina, Virginia, and Florida, was seized for fraud. As a result of the investigation of clues and evidence then discovered a number of indictments were returned, some of them against former revenue officers who had conspired with the distillers to permit frauds. Nine of the persons involved have pleaded guilty or been convicted, with sentences imposed ranging from six months to nine years, together with fines totaling \$33,000. A number of the persons indicted are yet to be tried.

"From the sale of the forfeited property seized some \$40,000 has been realized, and there is property under seizure yet to be sold of an appraised value of

some \$25,000 more while \$19,000 has been collected from the distillers' bonds, and there are yet outstanding good and valid bonds covering \$14,000 additional. The total tax evaded in this case, of which there is evidence, was \$383,125.60 between December, 1911, and May, 1915.

"As a result of this case and the indictment of former revenue officers and breaking up of the conspiracy having ramifications in eastern territory, together with more efficient surveillance of the suspected distilleries, it is believed that the distillery frauds in question have been entirely suppressed; indeed, most of them have discontinued operations entirely, there being at the present time only seven active grain distilleries in Virginia, none in Florida and none in Arkansas.

"3. Equalizing.

"Investigation in the state of Kentucky indicated that the revenues were being defrauded through the practice of equalization. In the nature of things it is very rare that satisfactory overt evidence of this fraud can be obtained, and the extent of it must be based on estimate and comparison of gauges. For obvious reasons under the circumstances it has been considered advisable to accept fair offers in compromise. Four of such cases have been closed by acceptance of \$85,000, and in a fifth, where no offer has been made, some \$37,000 has been assessed and collected, but suit will be brought for its recovery.

"Compromises.

"A total of \$868,916.68 was accepted in compromise of various charges during the period from April 28, 1913, to December 31, 1915, not including \$400,000 to be paid as the result of court settlement of the liability of one stockholder in one oleomargarine case. There are not included in this amount of \$868,916.68 any sums in-

cluded in the total of \$809,722.79 collected on account of oleomargarine frauds, although \$70,000 of the latter sum was collected by way of compromise.

"Persons arrested and convicted.

"During the fiscal years 1914 and 1915, 8,496 criminal cases were disposed of and criminal proceedings were instituted in 7,862 cases, as shown in my annual reports. Fifty-five persons were convicted in these fiscal years for violating the oleomargarine laws.

"Collection of unreported taxes.

"The foregoing relates to suppression of fraud. In the matter of collection of taxes not reported due but discovered by revenue officers, there have been assessed on the regular lists \$4,576,591.07, not including the oleomargarine assessments before referred to. It is estimated that at least three-fourths of this was not returned by the taxpayer. On the Corporation Tax Lists \$6,987,584.37, not originally returned by the taxpayer but discovered to be due by revenue officers, has been assessed, with \$3,128,863.72 under similar conditions on the Personal Income Tax Lists.

"It will be seen from the foregoing that during the two years and eight months I have been commissioner approximately \$15,000,000, which would otherwise have been lost to the Government, has been collected or assessed through the activities of the Internal Revenue Service, to say nothing of the moral effect on other taxpayers of such activities. This amount is almost as great as the total amount expended for the collection of approximately \$1,090,000,000 for the period from April 28, 1913, to December 31, 1915, inclusive. In other words, the service has unearthed enough tax to almost pay for itself, leaving the collection of approximately \$1,073,000,000 free of expense."

L. A. B.

LARGE INCREASE IN A. B. A. MEMBERSHIP

Additions to the membership roll of the American Bankers Association are being made at a rate that shows a rapidly growing appreciation of membership benefits. For the month of March alone there was an increase of 343, while there has been a total gain of 370 since August 15, 1915. On that date the membership stood at 15,010; the net gain since brings the total on March 31 up to 15,380. It is interesting to note, in this connection, that of the delinquent banks—those which neglected to pay their dues for one reason or another—about seventy-five per cent. have been restored to membership. The balance is composed to a large extent of banks which have merged, failed, liquidated, etc.

The General Secretary is constantly receiving letters of appreciation from member banks on some feature of Association service. A few typical examples are given herewith:

From a national bank in Oregon: "We wish to join the American Bankers Association. Kindly send us the

Code as soon as possible, as it has become necessary for us to have it."

From a national bank in Oklahoma: "We are pleased with the effort and work of the Protective feature of the Association."

A member from Connecticut on the Code of the Association: "Will you permit me to offer my congratulations on the completeness of the work, which a superficial examination of the book shows? * * * This method of quick correspondence between members is in growing use and we absolutely refuse to pay out money except by instruction from banks where the Code is available."

Letter received from delinquent member: "I have your letter of September 12 regarding our dues which have not been paid. Of course we want to continue to be a member of the Association. We can afford to be for many years to come. It was through the advice of your Legal Department that we were able to save \$1,100 about two years ago. It has been a mere oversight in not remitting and you will find our check enclosed for the fees of \$10. Thanks to Mr. Paton."

"ANOTHER MEMBER ON THE COUNCIL"

"Another Member on the Council" is a slogan that has frequently stirred the bankers of a state into activity in behalf of increased membership in the American Bankers Association. In the past splendid work has been done by the state vice-presidents, Executive Council members and secretaries of state associations, who have co-operated in an endeavor to increase the number of banks in the Association fold; but as a matter of pride to the A. B. A. membership generally, and in view of the near approach of the Council meeting at Briarcliff, it may be of interest to show just how close some of the states are to reaching the required number for an additional Council member. Following is a list of nineteen states which are nearest the mark, on the basis of one new Council member for each additional 100 members. It will be noticed that Minnesota heads the list with only eight, while Kansas comes next with thirty-four.

State	Number of Members Enrolled March 31, 1916	Additional Members Required
Arkansas	231	69
California	627	73
Colorado	230	70
Illinois	965	135
Indiana	397	103
Iowa	630	70
Kansas	666	34
Michigan	463	37
Minnesota	492	8
Missouri	561	139
Montana	229	71
Nebraska	447	53
New York	1,007	93

State	Number of Members Enrolled March 31, 1916	Additional Members Required
Ohio	614	36
Oklahoma	440	60
Pennsylvania	953	147
Tennessee	235	65
Virginia	250	50
Wisconsin	391	109

The following states, which at present have a group representative, can obtain an independent representation on the Council provided a total membership of 100 is reached:

State	Number of Members Enrolled March 31, 1916	Additional Members Required
Wisconsin	69	31
Utah	84	16
Vermont	76	24
Wyoming	89	11

The office of the Association is constantly working in behalf of increasing the membership by the issuance of direct invitations to non-members. If the members of the Association, other than those referred to, will extend their co-operation in an endeavor to increase the membership, it will not be long before the American Bankers Association will have on its books practically every bank and trust company in the United States. At the present time more than one-half are enrolled. By consulting a bank directory a member can ascertain which are the non-members. It is through the co-operation of members that the desired increase will be achieved.

SMALL CHANGE

It is estimated that during 1915 the United States lent \$1,000,000,000 to foreign countries, and that in the same year there was repurchased a like amount of American securities from abroad.

Argentina is the only non-ally country to receive a loan in London during 1915.

During 1915 the total amount of new capital issues in the London market was \$3,334,728,700 as against an average of \$960,000,000 a year in times of peace.

A debt of nearly \$100 for every human being in the United Kingdom is represented by the \$4,600,000,000 of war debt up to January 1, 1916.

Four million new bank notes made in the United States have been placed in the Mexican treasury. Several million more will follow as rapidly as they can be engraved.

On December 31, 1915, the resources of the 203 New York state banks of deposit and discount totaled \$703,428,884. During the three months preceding this date the banks increased their resources \$122,286,562.

The Jewish Agricultural and Industrial Aid Society's loan department has a membership of thirty-five states. More than \$2,000,000 have been loaned in 1915 to 3,154 farmers occupying 2,606 farmsteads. The total number of loans made is 3,714. More than half of the loans were repaid during the year.

The emergency currency issued under the act of May 30, 1908, amounted to \$382,502,645. It was issued to 1,363 banks in forty-one states, including the District of Columbia.

The calendar year 1915 reveals a trade increase of more than \$12,000,000 for the territory of Alaska. Total imports amounted to \$28,017,307 and total exports to \$54,856,815 as compared with imports amounting to \$25,849,944 and exports amounting to \$44,655,924 in 1914.

At the close of 1915 the gold settlement fund in Washington amounted approximately to \$80,000,000. Since the inauguration of the national clearance system

conducted by the Federal Reserve Board about \$1,000,000,000 have been cleared at the cost of \$1,000.

During 1915 eighty-four state banks became members of the Federal reserve system by conversion into national associations, while thirty-two were admitted as state institutions.

The circulation of Federal reserve notes increased to \$188,817,000 during 1915.

Argentina's 1915 trade balance was 331,000,000 pesos as compared with 77,000,000 pesos in 1914.

Secretary of the Treasury McAdoo has estimated the requirements of the Treasury Department for distinctive currency paper at 1,200,000 pounds, or 100,000,000 sheets of $8\frac{1}{4} \times 13\frac{1}{2}$ inches in size. This estimate is for the fiscal year 1917 and is exclusive of any paper that may be required for printing Federal reserve notes or for miscellaneous securities.

Calculations disclose that the issuance of paper money by belligerents brought about by the war has increased in Germany about 320 per cent.; in France 113 per cent.; in Russia 217 per cent.; in Great Britain 367 per cent.

On December 31, 1915, the aggregate resources of 7,607 national banks were \$13,467,000,000, an increase of \$2,110,000,000 during the year. The figures are unprecedented.

The United States Consul at Valparaiso reports that the government of Chile has granted permission to the National City Bank of New York to establish banking agencies in Chile. It is stated that the capital of the agencies will be \$1,000,000.

A party of officers and directors of the Royal Bank of Canada has been touring West Indian and South and Central American cities with a view to establishing branch banks where a study of economic conditions reveals the advisability of such action. Officers remained in some of the cities to look after the preliminary work of organization. The Royal Bank of Canada is rearranging and extending its branches to cover the West Indian field completely before the advent of any American branch banks. Fear of American competition in the foreign field, it seems, prompted quick action and a wide covering of territory.

On March 15, 1916, the Bank of New York, N. A., the oldest bank in the state celebrated its 132d anniversary. A group of merchants, led by Alexander Hamilton, organized the bank on March 15, 1784, and drew its charter. The bank stands today at Wall and William Streets, New York City—the property which it has occupied 118 years. Alexander Hamilton, its founder, and the first Secretary of the Treasury, is in the list of officers and directors of the institution. Included in this list is a host of men prominent in the commercial and financial activities of New York.

The per capita circulation of money in the United States on March 1, 1915, was \$34.55, whereas on March 1, 1916, it was \$38.54.

There has been a general reduction of the stock of money in the United States on February 1, 1916, from \$4,418,000,000 to \$4,381,800,000 on March 1, 1916.

With the recently announced loan of \$15,000,000 to Argentina, the total lent by New York bankers to that country mounted to \$79,000,000 since the estoppel of British credits.

United States exports to Argentina in 1914 amounted to \$27,127,958 and in 1915 they were \$52,883,035.

The imports of the United States from Argentina have mounted to \$94,677,644.

The national bank notes in circulation on March 1, 1915, amounted to \$865,700,000, whereas on March 1, 1916, they totaled \$738,300,000.

The post office in New York City during 1915 purchased foreign exchange to the amount of \$31,046,051 compared with \$55,367,605 in the year preceding. The annual business of the New York post office in money orders, transfers, etc., amounted to \$420,742,391, an increase of \$121,959,969, or more than twenty-two per cent. over that of 1914.

Imports of from \$4,000,000 to \$5,000,000 a day at New York indicate from \$8,000,000 to \$10,000,000 a day for the whole country. These are figures of present imports.

New financing of war munition companies, incorporation of ammunition companies, chemical and dye-stuffs concerns and shipping companies since the beginning of the war have involved capital issues of \$625,276,000.

Two Danish shipping companies have declared a dividend of twenty per cent., four of thirty per cent., four of forty per cent., six of fifty per cent. and one of one hundred per cent. The statements of shipping companies in other neutral countries reveal like profits.

Bank clearings throughout the country during February were over \$18,000,000,000, the greatest sum for any February in history.

The Steel Corporation's balance sheet shows on each side of the account \$1,848,541,861. Dividends on the preferred aggregate one hundred and three and one-quarter per cent. Common has received forty-three and three-quarters per cent. The corporation's employees number 191,126 and they receive \$176,800,864 in wages.

On March 7, 1916, fifty-eight national banks reported to the Comptroller of the Currency gross deposits of over \$25,000,000 as against fifty-seven banks on December 31, 1915.

Total exports from the United States to Denmark, Norway, Sweden and Holland during January, 1916, amounted to \$22,211,000 as compared with \$35,156,000 during January, 1915.

Exports to Russia in Europe expanded from \$654,000 in January, 1915, to nearly \$12,000,000 in January, 1916. Shipments to Russia in Asia during the same period have doubled to \$6,000,000.

Great Britain's annual income since the war began has experienced an increase of \$3,000,000,000, the total being \$15,000,000,000.

The large interstate railroads reported to the Interstate Commerce Commission that in January, 1916, the operating income averaged \$283 per mile of line operated for the whole United States. Last year it amounted to \$172. The operating revenue averaged \$1,133 as compared with \$939 last year, while the operating expenses averaged \$797 as against \$718 last year.

In January, 1915, the imports from Argentina, Brazil and Chile stood at \$7,163,000, \$10,012,000 and \$1,157,000 respectively, while in January, 1916, they were for these countries in the order named \$14,170,000, \$12,074,000 and \$6,529,000.

United States exports to Argentina, Brazil and Chile in January, 1916, totaled \$13,812,000 as against \$6,989,000 in January, 1915.

It is calculated that in April, 1916, a total of \$199,740,652 will be paid to investors representing dividends and interest disbursements. These figures compare with \$181,007,486 for April, 1915.

The foreign trade of the United Kingdom in February, 1916, is summarized as follows: Imports, 67,348,243 pounds; exports, 36,335,782 pounds. These figures compare with those of February, 1915, in that imports have increased 2,147,711 pounds and exports 10,158,845 pounds; and over the figures of February, 1914, they reveal an increase in imports of 5,294,529 pounds, while the exports show a decrease of 4,926,015 pounds compared with the date last named.

The Department of Commerce estimates that since the war began more than 2,000 merchant ships of more than 4,000,000 tonnage have been sunk, captured or driven off the seas. These figures include neutral shipping losses and some 600 German vessels bottled up in ports of the world.

OFFICIAL NOTICE

STATEMENT FOR APRIL 1, 1916

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912,

Of the Journal of the American Bankers Association published monthly at New York, N. Y., for April 1, 1916.

STATE OF NEW YORK..... } ss.
COUNTY OF NEW YORK }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Arthur D. Welton, who, having been duly sworn according to law, deposes and says that he is the Editor of the Journal of the American Bankers Association

(State whether editor, publisher, business manager, or owner.)

(Insert title of publication.)

and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 443, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Name of—
Publisher, Fred. E. Farnsworth
Editor, Arthur D. Welton
Associate Editor, George Lewis
Managing Editor, None
Business Manager, Arthur D. Welton

Post office address—
5 Nassau St., New York, N. Y.
5 Nassau St., New York, N. Y.
5 Nassau St., New York, N. Y.

5 Nassau St., New York, N. Y.

(If there are none, so state.)

2. That the owners are: (Give names and addresses of individual owners, or, if a corporation, give its name and the names and addresses of stockholders owning or holding 1 per cent or more of the total amount of stock.)
The American Bankers Association

(A voluntary, unincorporated association of 15,200 bankers; James K. Lynch, First National Bank, San Francisco, Cal., President, and Fred. E. Farnsworth, 5 Nassau St., New York, General Secretary.)

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

None

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the six months preceding the date shown above is....

(This information is required from daily publications only.)

(Signed) ARTHUR D. WELTON.
(Signature of editor.)

Sworn to and subscribed before me this 24th day of March, 1916.
[SEAL.]

(Signed) HERRICK J. SKINNER,
Notary Public, Bronx County, No. 60.
Certificate filed in New York County, No. 429,
New York.
(My commission expires March 30, 1917.)

REGISTRATION AT THE ASSOCIATION OFFICES

DURING THE MONTH OF MARCH, 1916

- Barnet, W. R., New York City.
 Blodgett, H. A., president Harvey Blodgett Company, St. Paul, Minn.
 Burkhardt, C. A., Denver, Colo.
 Clark, Amzi N., supervisor of school banks, Board of Education, Richmond Hill, N. Y.
 Corsaut, Lorne, Knauth, Nachod & Kuhne, New York City.
 Cutler, Ralph W., president Hartford Trust Company, Hartford, Conn.
 Ellsworth, Fred W., Guaranty Trust Company, New York City.
 Frazier, Raymond R., president Washington Savings & Loan Association, Seattle, Wash.
 Foye, E. Elmer, E. Elmer Foye & Company, Boston, Mass.
 Griffing, Martin H., cashier City National Bank, Danbury, Conn.
 Hardy, Gaston, vice-president Harriman National Bank of Alaska, Seward, Alaska.
 Hecht, R. S., vice-president Hibernia Bank & Trust Company, New Orleans, La.
 Hoyt, Gerald L., Maitland, Coppel & Company, New York City.
 Hurlbut, Guy B., Bankers Trust Company, New York City.
 Hyde, F. W., cashier National Chautauqua County Bank, Jamestown, N. Y.
 Kemper, William T., president Commerce Trust Company, Kansas City, Mo.
 Kiesewetter, L. F., vice-president and cashier Ohio National Bank, Columbus, Ohio.
 Knox, Wm. E., comptroller Bowery Savings Bank, New York City.
 McCorkle, Walter L., New York City.
 Maddox, Robert F., vice-president American National Bank, Atlanta, Ga.
 Matthews, J. P., vice-president Palmetto National Bank, Columbia, S. C.
 Mee, William, president Security National Bank, Oklahoma City, Okla.
 Pajot, Edna M., Windsor, Ont., Canada.
 Phillips, Frank A., president Lambertville National Bank, Lambertville, N. J.
 Pugsley, Cornelius A., president Westchester County National Bank, Peekskill, N. Y.
 Ransom, F. T., president Union Stock Yards National Bank, Wichita, Kan.
 Reynolds, Wiley R., director Peoples National Bank, Jackson, Mich.
 Ricker, George E., vice-president Commonwealth National Bank, Kansas City, Mo.
 Rollinson, W., Essex County National Bank, Newark, N. J.
 Runkle, Delmer, president Peoples National Bank, Hoo-sick Falls, N. Y.
 Sadd, W. A., president Chattanooga Savings Bank, Chattanooga, Tenn.
 Schumann, C. H., vice-president Bronx Savings Bank, New York City.
 Shepard, P. W., secretary-treasurer Mount Vernon Trust Company, Mount Vernon, N. Y.
 Simpson, John W., president South Carolina Bankers Association, Spartanburg, S. C.
 Smith, L. A., New York City.
 Stevens, Charles W., Old Colony Trust Company, Boston, Mass.; secretary-treasurer Boston Chapter, American Institute of Banking.
 Stevens, Frederic B., treasurer National Savings Bank, Albany, N. Y.
 Swinney, E. F., president First National Bank, Kansas City, Mo.
 Tawes, Orrie L., vice-president Marine Bank, Crisfield, Md.
 Thompson, Alex, president Monroe National Bank, Monroe, N. Y.
 Tucker, J. D., cashier First National Bank, South Boston, Va.
 Van Deusen, W. M., cashier National Newark Banking Company, Newark, N. J.
 Villalonga, J. L., New York City.
 Villalonga, Mrs. J. L., New York City.
 Villalonga, Mrs. M. E., New York City.
 Ward, H. E., vice-president Irving National Bank, New York City.
 Weil, Harry E., Cincinnati, Ohio.
 Wolfe, O. Howard, assistant cashier Philadelphia National Bank, Philadelphia, Pa.
 Wright, H. P., president H. P. Wright Investment Company, Kansas City, Mo.
 Wynne, James L., cashier Marine Bank, Crisfield, Md.

An increase of \$4,000,000 in the total resources of the 261 savings and loan associations in New York State is recorded for the year 1915. On January 1, 1916, the total resources were more than \$72,500,000. The total membership of the associations was 179,380, an increase of 7,133.

Reports of British shipping companies show that during 1915 one earned a dividend of thirty per cent., another of twenty-five per cent., while a third reports for the fourth time its dividend of one hundred and six per cent. Another line paid a dividend of three per cent. and a bonus of one hundred per cent. on the ordinary shares.

MORTUARY RECORD OF ASSOCIATION MEMBERS

REPORTED DURING MARCH, 1916

- Bailey, David, director Champaign National Bank, Champaign, Ill.
- Balmanno, Charles G., president Mechanics Bank, Brooklyn, N. Y.
- Bates, George W., president Lumbermens National Bank, Portland, Ore.
- Betts, Edward T., director Wilmington Trust Company and Wilmington Savings Fund Society, Wilmington, Del.
- Cannon, M. C., vice-president and manager Oklahoma National Bank, Chickasha, Okla.
- Chamberlain, H. S., vice-president First National Bank, Chattanooga, Tenn.
- Cheney, Willis L., cashier and director Second Ward Savings Bank, Milwaukee, Wis.
- Croswell, James T., vice-president National Bank of Pontiac, Pontiac, Ill.
- Deshler, William G., director Hayden-Clinton National Bank, Columbus, Ohio.
- Dickey, Warren F., assistant treasurer Newburgh Savings Bank, Newburgh, N. Y.
- Dunne, M. C., director Washington Trust Company, Spokane, Wash.
- Edwards, John S., vice-president Hersey Banking Company, Hersey, Mich.
- Fischer, George, vice-president Ricker National Bank, Quincy, Ill.
- Glenn, John F., vice-president Merchants National Bank, Richmond, Va.
- Halladay, Daniel, director Farmers and Merchants National Bank, Santa Ana, Cal.
- Hay, Stephen J., president Dallas Trust and Savings Bank, Dallas, Tex.
- Hicks, Alfred, president Tarentum Savings & Trust Company, Tarentum, Pa.
- Hill, A. F., president Friendship State Bank, Friendship, Wis.
- Jackson, F. W., vice-president First National Bank, San Diego, Cal.
- Jayne, Dr. William, director First National Bank, Springfield, Ill.
- Keller, Jacob, president Farmers & Citizens Bank, Lancaster, Ohio.
- Kelly, William, president First National Bank, Port Clinton, Ohio.
- Kendrick, George W., Jr., director Third National Bank, Philadelphia, Pa.
- Kerrick, E. J., vice-president Pelham Trust Company, Philadelphia, Pa.
- Larson, E. F., vice-president Citizens National Bank, Nampa, Idaho.
- Leland, Francis L., president New York County National Bank, New York City.
- McCurdy, Richard A., director Morristown Trust Company, Morristown, N. J.
- McNab, James, director American National Bank, San Francisco, Cal.
- Macbeth, Noble E., cashier Security National Bank, Pasadena, Cal.
- Martinez, Felix, director Federal Reserve Bank of Dallas, Dallas, Tex.
- Melton, John T., cashier National State Bank, Columbia, S. C.
- Munro, William, manager Bank of Montreal, Chicago, Ill.
- O'Leary, Walter Cornelius, president Lakewood Trust Company, Lakewood, N. J.
- Peck, John E., director City Trust & Savings Bank and Grand Rapids National City Bank, Grand Rapids, Mich.
- Pomeroy, Orlando D., president Bank of Berea, Berea, Ohio.
- Post, E. E., cashier Clinton National Bank, Clinton, Conn.
- Ratcliffe, William Lee, director National Rockland Bank, Boston, Mass.
- Reagle, William H., cashier Merchants National Bank, Bangor, Me.
- Rench, Charles, president Third National Bank, Dayton, Ohio.
- Rhodes, Robert Russell, president Peoples Savings Bank, Cleveland, Ohio.
- Russell, Parley A., director National Mahaiwe Bank, Great Barrington, Mass.
- Sammis, J. Newell, director Bank of Huntington, Huntington, N. Y.
- Shurtleff, J. B., trustee Chelsea Trust Co., Chelsea, Mass.
- Smith, George D., president National Herkimer County Bank, Little Falls, N. Y.
- Stickney, Charles D., director Sherman National Bank, New York City.
- Stockwell, C. H., Sr., president Clatskanie State Bank, Clatskanie, Ore.
- Taylor, Walter H., president Marine Bank, Norfolk, Va.
- Thompson, Aaron W., cashier Rondout National Bank, Kingston, N. Y.
- Turnbull, E. A., director Merchants National Bank, Detroit, Mich.
- Voorhees, Theodore, director Market Street National Bank, Philadelphia, Pa.
- Walrad, Calvin P., president Cortland Savings Bank, Cortland, N. Y.
- Walsh, P. T., vice-president Iowa National Bank, Davenport, Iowa.
- Williams, Henry, director National Bank of Commerce, Baltimore, Md.
- Wright, J. H., president and director Guaranty Loan, Trust & Banking Company, Meridian, Miss.
- Wright, Joseph F., president Bank of Alexandria, Alexandria, Ky.

TITLE CHANGES AMONG BANK OFFICERS

Following is a list of officers' title changes in institutions which are members of the American Bankers Association, reported to the JOURNAL-BULLETIN during March. Members will confer a favor by notifying this department immediately of any such changes. Publication will be made only on receipt of information direct from members:

CALIFORNIA

San Luis Obispo—Henry Dawe, formerly cashier First National Bank, Santa Barbara, now cashier Union National Bank.

ILLINOIS

Chicago—Charles Fernald, formerly assistant cashier Fort Dearborn National Bank, now vice-president Drovers National Bank.

MAINE

Portland—Charles G. Allen, formerly cashier Portland National Bank, now vice-president and cashier.

MARYLAND

Baltimore—William Ingle, formerly reserve agent Federal Reserve Bank of Richmond, Va., now president Baltimore Trust Company.

MASSACHUSETTS

Boston—W. S. B. Stevens, formerly cashier National Union Bank, now vice-president. Arthur E. Fitch, formerly assistant cashier, now cashier. John W. Marno succeeds Mr. Fitch as assistant cashier.

MISSOURI

Kansas City—A. W. Anderson, formerly vice-president Stock Yards National Bank, now secretary-cashier Federal Reserve Bank of Kansas City, succeeding Jerome Thralls, now secretary National Bank and Clearing House Sections, American Bankers Association, New York City.

NEBRASKA

Neligh—W. T. Wattles, formerly vice-president Neligh National Bank, now president Neligh State Bank (conversion of Neligh National Bank), succeeding C. J. Anderson.

NEW YORK

New York—William C. Edwards, formerly treasurer Guaranty Trust Company, now vice-president. Edgar

C. Hebbard, formerly secretary, now vice-president. William P. Conway, formerly assistant treasurer, succeeds Mr. Edwards as treasurer and N. D. Putnam, formerly assistant secretary, succeeds Mr. Hebbard.

OHIO

Lima—E. R. Curtin, formerly vice-president Lima Trust Company, now president, succeeding G. E. Bluem, who remains on the board.

OKLAHOMA

Tulsa—Earl W. Sinclair, formerly vice-president Exchange National Bank, now president.

PENNSYLVANIA

Philadelphia—Samuel D. Jordan, formerly cashier Bank of North America, now vice-president. Edgar S. Kromer and Clarence A. McIlhenny, formerly cashier and assistant cashier, respectively, of the National Bank of Northern Liberties, now holding those offices with the Bank of North America. (Consolidation.)

SOUTH DAKOTA

Sioux Falls—M. C. Smith, formerly cashier Bank of Ipswich, Ipswich, now vice-president Sioux Falls National Bank, succeeding S. T. Kiddoo, now vice-president Live Stock Exchange National Bank, Chicago. J. D. Fleckenstein, formerly assistant cashier, now cashier.

VIRGINIA

Norfolk—Caldwell Hardy, formerly president Norfolk National Bank, now chairman of board and Federal reserve agent, Federal Reserve Bank of Richmond, succeeding William Ingle.

WASHINGTON

Port Angeles—G. M. Lauridsen, formerly vice-president Citizens National Bank, now president.

Tacoma—H. V. Alward, formerly secretary Montana Bankers Association, now vice-president and cashier Fidelity Trust Company.

WHERE THE MONEY GOES

A man made \$25 of loose, surplus, unearned increment by putting poor quality in a case of soldiers' shoes he shipped abroad. As he had lots more money, made the same way, he gave the \$25 to a head waiter to reserve a table for New Year's eve, says the New York *Evening Mail*.

The head waiter gave the \$25 to his wife, who handled his finances, and she used \$24.95 of it to pay the head waiter's income tax.

The income tax will be devoted to supporting a navy to stand off some country that doesn't like us any more because we made poor shoes for its soldiery.

As for the old nickel, that is still in escrow, as it were, and will be thus for another generation or two, when the son of the head waiter will throw it to the grandson of the shoe manufacturer as a start toward a night's lodging.

Money always goes somewhere.

LEGAL DEPARTMENT

THOMAS B. PATON, GENERAL COUNSEL

OKLAHOMA USURY PENALTY STATUTE INAPPLICABLE TO NATIONAL BANKS

At an extraordinary session of the Fifth Oklahoma Legislature recently held, an act was passed providing penalties for the violation of the interest laws of the state and denying the jurisdiction of the courts to enforce usurious contracts in certain cases. A copy of the act is appended. A number of requests have come from national banks in the state asking for the opinion of the General Counsel as to the application to national banks of specific provisions of this statute and generally whether any of the provisions so apply.

There is a controlling decision of the Supreme Court of the United States in *Farmers and Mechanics National Bank v. Dearing*, 91 U. S. 29, that the Federal statutes as to the consequences of usury by a national bank are exclusive of state penalties and there are a number of decisions of state courts to the same effect. For example, *First National Bank v. Garlinghouse*, 22 Ohio St. 492, in which it was held that the Ohio statute of 1850 to restrain banks from taking usury applied only to state and not to national banks; also *Slaughter v. First National Bank*, 109 Ala. 157, in which it was held that a statute making it a misdemeanor for a bank to take usury did not apply to national banks because the Federal law was exclusive of state laws relating to the subject and the only remedies available against a national bank were those prescribed therein. A contrary decision is *State v. Clark First National Bank*, 2 S. Dak. 568, in which it was held that a national bank is liable under a state statute making it a misdemeanor to take usury and that the National Bank Act does not prevent the operation of the police laws of the state. But this sole decision is contrary to the decisions in other states and to the doctrine of the United States Supreme Court.

In *Farmers & Mechanics National Bank v. Dearing*, a national bank in New York had discounted a note at an usurious rate of interest. Under the usury law in New York in force at the time, the note was void. The bank sued upon the note and the New York courts, including the New York Court of Appeals, upheld the defendant's contention that usury avoided the note. The Supreme Court of the United States reversed the judgment and held the bank was entitled to recover the principal of the note less the interest unlawfully reserved. The court reviewing the provisions of the National Bank Act providing as to the rate of interest and the penalty for usury said: "These clauses form a system of regulations. All the parts are in harmony with each other and cover the entire subject." The court denied that it was the intention of Congress that state penalties should apply and pointed out that under such a construc-

tion, "In Pennsylvania, where the contract would be void only as to the unlawful excess, the bank would lose nothing but such excess, while in New York, under a contract precisely the same, except as to the identity of the lender, the entire debt would be lost to the bank. This would be contrary to the plainest principles of reason and justice." The court further said: "In any view that can be taken of the 30th Section (providing the rate of interest and the penalties for usury), the power to supplement it by state legislation is conferred neither expressly nor by implication. There is nothing which gives support to such a suggestion. There was reason why the rate of interest should be governed by the law of the state where the bank is situated; but there is none why usury should be visited by forfeiture of the entire debt in one state and with no penal consequences whatever in another. This, we think, would be unreason and contrary to the manifest intention of Congress."

This decision is clearly to the effect that the penalties for usury imposed by the National Bank Act are exclusive of state penalties; that where Congress has provided the penalties for usury by national banks, the states are without power to impose supplemental or different penalties of their own, which would operate differently in the different states.

In the light of this Federal doctrine, let us examine the five sections of the Oklahoma Act *seriatim*:

The first section provides penalties for taking usury of forfeiture of twice the interest agreed to be paid, or in case of payment, liability of the lender to an action for twice the amount; and also allows a borrower when sued for an usurious loan, to set off twice the interest. It is clear that these provisions can have no application to national banks because they conflict with the penalties provided by Congress.

The second section provides how an usurious contract can be liquidated by a tender by the debtor. This section is inapplicable to usurious loans by national banks. If the lender rejects the tender of the precise loan without interest, the law provides that the tender satisfies the debt. This, in effect, works a forfeiture of the entire debt as a penalty for taking usury and refusing the compromise tender, and we have seen that state legislatures are powerless to so legislate in the case of national banks.

Section 3 makes the usurious lender who transfers the instrument before due liable to the maker for double the interest taken. Here, again, is a liability in the nature of a penalty for taking usury and transferring

the usurious instrument which cannot be visited upon a national bank for the reason, already stated, that the penalties provided by the National Bank Act are exclusive of state penalties; they cannot be supplemented by state legislation.

Section 3 contains a provision that the purchaser with notice of an usurious contract is subject to the defenses and penalties provided in the Act. This particular provision would, I think, apply to a national bank the same as to any other purchaser, because it does not impose a penalty on a national bank as an usurious lender. The bank in such case would simply be a purchaser, with knowledge, of a contract tainted with usury as to which the state has legislated certain penalties and it can only hold and enforce the note subject to such penalties. If, however, the bank is an innocent purchaser without notice or knowledge that the contract is usurious, it would seem clear by the provisions of the Act itself that it can enforce the note for the full amount. The concluding provision of Section 2 is that "the provisions of this Act shall not operate to repeal or modify any of the provisions of the Negotiable Instruments Act." The Negotiable Instruments Act provides that "the title of the person who negotiates an instrument is defective within the meaning of this Act when he obtained the instrument * * * for an illegal consideration * * *" but "a holder in due course holds the instrument free from any defect of title of prior parties * * * and may enforce payment of the instrument for the full amount thereof against all parties liable thereon." Where usury is charged or taken upon a note, the lender obtains the instrument for an illegal consideration but the transferee from the lender, without notice or knowledge, is a holder in due course and may enforce payment free from such defense. This conclusion holds whether the transferee is a national bank or any other innocent purchaser. It is confirmed by the provisions of Section 3 which, in such case, impose the penalty upon the usurious transferor and further provide that the purchaser "with notice or knowledge that the same was executed in violation of the interest laws of the state shall not be deemed an innocent purchaser, and such contract shall be subject to all the defenses and penalties provided in this Act." This carries a necessary implication that the legislature intended that an usurious contract acquired by an innocent purchaser is not so subject. By positive provision in Section 2 and by implication in Section 3, therefore, the innocent purchaser of a note tainted with usury between the original parties, whether a national bank or otherwise, holds the note free from such taint.

Coming now to Section 4, this prohibits a suit upon any contract (presumably for the loan of money but not so stated) of \$300 or less unless coupled with an affidavit that the contract is not usurious; and upon proof to the contrary the suit should be dismissed. The provisions of this Section are somewhat indefinite and it is difficult to say whether the legislature intended them to apply simply to suits between the original parties to contracts of loan or also to suits against the maker of

a note by a transferee of the payee. An affidavit is required that the contract sued on was not made in violation of the interest laws. Only the original lender would be in a position to make such affidavit, for an innocent purchaser would lack the means of knowledge to make the required affidavit. Construing the section as applying only to a suit by the lender, I am of opinion it would not be applicable to a national bank. The provision virtually shuts the door of the court unless a national bank suing the borrower on a discounted note comes into court with an affidavit of non-usury; furthermore, where the proof shows usury, redress upon the note is denied. This last stated provision would make a usurious note worthless in the hands of a national bank lender and is clearly a penalty for usury beyond the power of the state to impose, being in conflict with the exclusive penalties provided by the National Bank Act. With respect to the prerequisite of an affidavit of non-usury, this, in a case where a national bank has charged usury, would be an absolute prohibition of such suit because the bank cannot make the required affidavit; it cannot, therefore, apply to a national bank because it is contrary to the right which the bank has under the National Law to sue for and enforce the principal. Furthermore, where a national bank sues as lender upon a note under \$300 upon which usury has not been charged, the requirement of an affidavit of non-usury would not, I think, be applicable, for such requirement is virtually part of the legislative scheme for imposing penalties upon usurious transactions which penalties are not applicable to national banks. The fair conclusion, therefore, is that a national bank would have the right to sue the borrower in the Oklahoma courts upon a note for less than \$300 without filing the required affidavit, the provisions of Section 4, being in the nature of penalties for usury, not being applicable to national banks and presumably not intended to apply to such banks.

If it is to be assumed, however, that the provisions of Section 4 can be applied to suits between other than the immediate parties, namely, to those who purchase such contracts, then, probably, national banks, as well as other purchasers would be subject thereto, because the requirements in such case would not be visited upon the national bank as a penalty for taking usury but upon all purchasers of contracts of loan under \$300. But unless a purchaser should have knowledge of usury between the original parties, it would be impossible for him to make the required affidavit and it may be doubted, therefore, whether the provisions of Section 4 are intended to apply to other than the original lender.

The concluding section, 5, makes it the duty of officers of state banks to make quarterly reports of usurious loans to the Bank Commissioner who shall publish same in his annual report; makes it the duty of the Bank Commissioner in case of wilful violation by a state bank to make report to the Governor, who shall direct the Bank Commissioner to bring suit through the Attorney General for forfeiture of the charter. This provision, by its terms only applicable to state banks, carries with it an implication that the entire act was

intended by the Legislature to apply only to such banks and to individual lenders and that the Legislature realized, in passing the law, that the various penalty provisions of the act could not be imposed in the case of national banks.

Summarizing the entire act, therefore, the conclusion seems warranted that none of its provisions, being in the nature of penalties for the taking of usury, apply to national banks, as such, and that the only way national banks would be affected would be as purchasers of usurious contracts with knowledge of the illegal consideration. In such event, equally with other purchasers, they would be subject to the provisions of the Act with reference to their rights of enforcement. But national banks, which purchase negotiable usurious contracts before due, without notice or knowledge of the usury, being innocent purchasers would, as holders in due course under the Negotiable Instruments Act, be fully protected in their full right of enforcement, free from the defenses and penalties provided by the Act. This right of a national bank or of any other innocent purchaser to full enforcement is clearly provided by the act itself.

Be It Enacted by the People of the State of Oklahoma:

Section 1. Section 1005 of the Revised Laws of Oklahoma, 1910, is hereby amended to read as follows:

"The taking, receiving, reserving or charging a greater rate of interest than is provided by the preceding sections, shall be deemed a forfeiture of twice the amount of interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case a greater rate of interest has been paid, the person by whom it has been paid, his legal representatives, may recover from the person, firm or corporation taking or receiving the same, in an action in the nature of an action of debt, twice the amount of the entire interest paid; provided, that such action shall be brought within two years after the maturity of such usurious contract; provided further, that when any suit is brought upon any note, bill or other evidence of indebtedness or to foreclose any mortgage or lien given to secure such indebtedness when a greater rate of interest has been collected, reserved, charged or received than is provided for in this act, the defendant or his legal representative may plead as a set-off or counter-claim in said action twice the amount of the entire interest collected, reserved, charged or received, in said transaction, or in all such transactions between the same parties."

Sec. 2. Any contract for the loan of money, where the rate of interest taken, received, reserved or charged is greater than the rate as declared in section 1004, of the Revised Laws of Oklahoma, 1910, may be liquidated in the following manner: On the date such contract falls due, or at any time before suit for the collection thereof is instituted, the payor, his agent, attorney or legal representative, may tender to the holder thereof the exact amount of money received from the lender, less the amount of the entire interest charged, received, reserved, or collected thereon, said tender to be in writing

and the payee of said contract is hereby given twenty-four hours thereafter to accept or reject such offer, and such acceptance or rejection shall be in writing, and the acceptance or rejection thereof shall constitute and be a full and complete satisfaction of such indebtedness. If no such tender as heretofore provided has been made, and suit is instituted in a court of competent jurisdiction for the collection thereof, the payor, his agent, attorney or legal representative, may at or before the time he is required to plead, deposit in the court the exact sum of money received on said contract, less the exact amount of the entire interest taken, received, reserved or charged, and the cost incurred, and if the same be not accepted, the court or jury shall make a finding thereon and the judgment against said plaintiff shall be rendered on said finding holding such contract and debt satisfied by reason of such tender, if such is found to have been made, and for cost, and on such finding the said deposit shall be returned to said defendant. Provided, this section shall not be construed to prevent the debtor from bringing his action on cross petition, or in an original suit to recover twice the amount of interest charged or paid in said contract sued upon; provided further, the provisions of this act shall not operate to repeal or modify any of the provisions of the Negotiable Instruments Act.

Sec. 3. Any person, firm or corporation violating the provisions of this act and the laws of this state relating to the loaning of money by taking, reserving, charging or receiving any usurious interest on any note, bill or other evidence of debt, and who shall transfer the same to a bona fide purchaser before due, shall be liable to the maker of said note, bill or other evidence of debt, for double all such interest taken, reserved, charged or received, and it shall be competent to join in the same action causes of action for reserving and charging usurious interest with causes of action for taking and receiving usurious interest, and any number of such causes of such action may be joined by the same action whether growing out of the same transaction or different transactions wherein such usurious interest is taken, reserved, charged or received; provided, that the purchaser of any note or evidence of debt with notice or knowledge that the same was executed in violation of the interest laws of the state, shall not be deemed an innocent purchaser, and such contract shall be held subject to all the defenses and penalties provided in this act; provided further, that causes of action for the recovery of penalties created in this act shall not be assignable.

Sec. 4. No suit upon any contract entered into after the passage and approval of this act, of \$300 or less, or an action in replevin or to foreclose any mortgage or lien given as security therefor, shall be maintained in the courts of this state, and no petition or bill of particulars shall be filed or any process issued where the amount of such sum is \$300 or less, unless, at the time of filing such suit, there shall be filed with such bill or particulars or petition, an affidavit setting forth that the contract sued on was not made in violation of

the interest laws of this state, and that a greater rate of interest than ten per cent. has not been charged, reserved or collected upon such contract or contracts sued upon; provided, that if upon the trial of any such suit brought upon any note, bill, or other evidence of indebtedness of \$300 or less, or in replevin, or for the foreclosure of any lien given to secure the same, it shall be shown by the evidence that the contract sued upon is usurious and made in violation of the interest laws of this state, said suit shall be dismissed at the cost of the plaintiff.

Sec. 5. It shall be the duty of the officers of all state banks, organized and doing business under and by virtue of the laws of the state, to make a sworn quarterly report to the Bank Commissioner, setting forth the rate of interest charged, retained, reserved or collected upon the loans made in excess of the legal rate of interest during the quarter from which said report is made, and such other detailed information as the Bank Commissioner may require concerning rates of interest charged, and all such reports as show the rates of inter-

est exceeding ten per cent. per annum have been charged shall be published in the annual report of the Bank Commissioner; provided, that when the report of any bank shall disclose that such bank is wilfully loaning money in violation of the interest laws of the state, it shall be his duty to immediately report such violation to the Governor, who may direct the Bank Commissioner to bring suit, through the Attorney General, in a court of competent jurisdiction in the county where the bank is located, to cancel the charter of such bank, and the judgment of the court on the trial of said issue shall find the defendant bank guilty or not guilty, and if the judgment is guilty, it shall further provide for the cancellation of the charter of said bank and the liquidation of the assets of said bank, as the law now provides in cases of insolvent banks, from which judgment either party shall have the right to appeal to the Supreme Court, as in civil cases. Upon such appeal being filed the Supreme Court shall hear and determine same as an advanced case.

INTERLOCKING BANK DIRECTORATES

The following favorable report by the Senate Banking and Currency Committee of the Kern bill to amend the Clayton Law, limited, however, so that a director or officer cannot be in more than two other non-competing banks irrespective of location, indicates the progress made on this subject down to the present date:

Calendar No. 266

SENATE

64th Congress, 1st Session.

Report No. 288.

INTERLOCKING DIRECTORATES OF NATIONAL BANKS

March 22, 1916.—Ordered to be printed.

Mr. Owen, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 4432]

The Committee on Banking and Currency, to which was referred Senate bill 4432, "To amend section eight of an Act entitled 'An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' approved October fifteenth, nineteen hundred and fourteen," having carefully considered the same, recommends that the bill be amended by striking out the comma after the word "bank" on line 12, page 1, and by striking out on line 3, page 2, the words "one or more," and inserting in lieu thereof the word "two," and as amended, the committee recommends that the bill pass.

The effect of the passage of this bill will be to permit the Federal Reserve Board to authorize a director of a member bank to serve as a member of the board of directors of two other banks, banking associations, or trust companies, if such other bank, banking association, or trust company, is not in substantial competition with such member bank.

It was represented to the committee that the rigid enforcement of the so-called Clayton antitrust law, with

respect to interlocking directorates, would work a great hardship in many cases where men of great banking experience were serving on the boards of more than one bank, and where there was no substantial competition between the banks for which they were rendering this service.

Realizing that the purpose of the passage of the Clayton antitrust law, in so far as it affects banks, was to prohibit a practical monopoly of credits through the interlocking directorates of competing banks, the committee is of the opinion that that purpose can be as well served by granting this permission to those banks which are not in substantial competition with each other, requiring, however, that the Federal Reserve Board shall first give its permission, and limiting the discretion of the Federal Reserve Board in the matter to specifically two other banks.

It frequently happens that there are several banking institutions under the same roof, having practically the same personnel on the several boards of directors, but the banks in no wise competing with each other, as for instance a national bank and a trust company, the trust company being authorized to do business of a nature which a national bank would be prohibited from doing under the National Bank Act, and a state bank with a different line of business under state laws.

The Federal Reserve Board was requested to consider this bill and report thereon to this committee, and the board's report is made a part hereof, as follows:

FEDERAL RESERVE BOARD,

Washington, March 8, 1916.

MY DEAR SENATOR: As requested in yours of February 26, the bill introduced by Senator Kern to amend section 8 of the Clayton Act, which is now before your committee, has been submitted to and considered by the Board.

It appears that under this bill the restrictions contained in the Clayton Act relating to interlocking directorates will not prohibit an officer, director, or employee of a member bank, or a Class A director of a Federal reserve bank, who first procures the consent of the Federal Reserve Board, from being an officer, director, or

employee of one or more other banks if such other banks are not in substantial competition with the member bank.

This amendment, if adopted, will give some elasticity to the provisions of the Clayton Act which prohibit directors of other banking institutions from serving as directors of member banks under certain conditions. It would seem to be desirable to have this discretionary power vested in the Board, since in many instances the enforcement of the provisions of the Clayton Act will result in depriving a member bank of the services of a director because of his connection with other banking institutions even though his serving on both boards would not be violative of the spirit of the act.

It is the opinion of the Board, however, that some limitation should be placed upon this discretionary power, and it is suggested that the bill should be amended so as to provide that "the Federal Reserve Board shall in no case authorize a director of a member bank to serve on the boards of more than two other banking institutions or on more than one other such institution located in the same city or town." It is also suggested that the comma appearing after the word "bank," at the beginning of line 12, page 1, of the bill be eliminated to avoid ambiguity. As the bill now reads it might be contended that the qualifying sentence, "who shall first procure the consent of the Federal Reserve Board," relates to Class A directors of Federal reserve banks and not to officers, directors, or employees of any member bank.

While the Board realizes that it will be difficult in some instances to determine whether or not two or more banks are in substantial competition, it is prepared to assume this responsibility should this bill become a law. In the opinion of the Board, the amendment appears to be a desirable one from many standpoints.

Respectfully,

C. S. HAMLIN, Governor.

Hon. ROBERT L. OWEN,

United States Senate, Washington, D. C.

Following is a copy of the Kern bill, as reported:
Calendar No. 266

S. 4432

64th Congress, 1st Session.

Report No. 288.

IN THE SENATE OF THE UNITED STATES

February 12, 1916

Mr. Kern introduced the following bill; which was read twice and referred to the Committee on Banking and Currency.

March 22, 1916

Reported by Mr. Owen, with amendments.

[Omit the part in brackets and insert the part printed in italic.]

A BILL

To amend section eight of an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fifteenth, nineteen hundred and fourteen.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section eight of an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October fifteenth, nineteen hundred and fourteen, be, and the same is hereby, amended by striking out the period at the end of the second clause of said section, inserting in lieu thereof a colon, and adding to said clause the following:

"And provided further, That nothing in this Act shall prohibit any officer, director, or employee of any member bank[,] or class A director of a Federal reserve bank; who shall first procure the consent of the Federal Reserve Board, which board is hereby authorized, at its discretion, to grant, withhold, or revoke such consent, from being an officer, director, or employee of [one or more] two other banks, banking associations, or trust companies, whether organized under the laws of the United States or any state, if such other bank, banking association, or trust company is not in substantial competition with such member bank."

BILLS OF LADING

The United States Senate, on March 9, passed S. 19, a bill relating to Bills of Lading in Interstate and Foreign Commerce, introduced by Senator Pomerene of Ohio on December 7, 1915, and the bill then went to the House and was referred to the Committee on Interstate and Foreign Commerce. Substantially the same bill was introduced by the same Senator in the Sixty-second and Sixty-third Congresses and in both passed the Senate unanimously, but in neither Congress was reported out by the House Committee on Interstate and Foreign Commerce, to which it was referred, after passing the Senate. The bill is an adaptation for Federal enactment of the Uniform Bills of Lading Act, drafted and recommended for state enactment by the Commissioners on Uniform State Laws and now the law in fifteen states and one territory. It has the indorsement of the American Bar Association, the American Bankers Association and a large number of shippers' organizations.

The chief value of this bill to the banks is that it overturns the doctrine laid down by the Supreme Court of the United States and followed by many state courts, under which a carrier whose authorized agent issues a

bill of lading acknowledging the receipt of certain described goods can, where the goods have not been received, deny liability to a bank or other bona fide purchaser who has advanced value in good faith, relying upon the truth of the recitals in the bill of lading as to receipt of the goods. Loans and advances upon faith of bills of lading run into the billions of dollars yearly and it is vital to the security of the banks which make loans upon bill of lading drafts, as well as of the Federal reserve banks which will rediscount such paper, that the carrier shall be responsible for the truth of what his duly accredited agent asserts; otherwise the bill of lading is worthless as security.

The provision of S. 19 which will effect this change in the law is the following:

Sec. 22. That if a bill of lading has been issued by a carrier or on his behalf by an agent or employee the scope of whose actual or apparent authority includes the issuing of bills of lading, the carrier shall be liable to (a) the consignee named in a straight bill, or (b) the holder of an order bill, who has given value in good faith, relying upon the description therein of the goods, for damages caused by the non-receipt by the carrier of all or part of the goods or their failure to correspond with the description thereof in the bill at the time of its issue.

Another provision designed to give a greater measure of negotiability to bills of lading and of protection to the bank or other purchaser is the following:

Sec. 37. That the validity of the negotiation of a bill is not impaired by the fact that such negotiation was a breach of duty on the part of the person making the negotiation, or by the fact that the owner of the bill was deprived of the possession of the same by fraud, accident, mistake, duress, loss, theft or conversion, if the person to whom the bill was negotiated, or a person to whom the bill was subsequently negotiated, gave value therefor in good faith, without notice of the breach of duty, or fraud, accident, mistake, duress, loss, theft or conversion.

Under this provision the purchaser is protected where he acquires in good faith a bill of lading which has been stolen or negotiated by the holder in breach of faith, or in the other cases mentioned, assuming, of course, that at the time of transfer the bill is so indorsed as to be susceptible of negotiation.

Legislation by Congress on this subject, as provided in the Pomerene bill, will be of great value to the commercial and banking interests of the country, and it is especially desirable that the members of the House Committee on Interstate and Foreign Commerce be made acquainted by their respective constituents with the merits of this bill and requested to concur in a favorable

report thereof at an early date. The members of this Committee are:

1. William C. Adamson, Chairman.....Georgia
2. Thetus W. Sims.....Tennessee
3. William A. Cullop.....Indiana
4. Frank E. Doremus.....Michigan
5. George F. O'Shaunessy.....Rhode Island
6. Dan V. Stephens.....Nebraska
7. Alben W. Barkley.....Kentucky
8. Sam Rayburn.....Texas
9. Andrew J. Montague.....Virginia
10. Perl D. Decker.....Missouri
11. John F. Carew.....New York
12. Charles P. Coady.....Maryland
13. Arthur G. Dewalt.....Pennsylvania
14. John J. Esch.....Wisconsin
15. Edward L. Hamilton.....Michigan
16. Richard Wayne Parker.....New Jersey
17. John A. Sterling.....Illinois
18. Samuel E. Winslow.....Massachusetts
19. James S. Parker.....New York
20. Howard Sutherland.....West Virginia
21. Charles H. Dillon.....South Dakota

PHILIPPINE BONDS

A bill (S. 381, introduced by Senator Hitchcock of Nebraska) which passed the Senate on February 4 and is now pending in the House, the Committee on Insular Affairs having voted to favorably report same without amendment, proposes to set up a more autonomous government for the Philippines and authorizes and directs the President of the United States in from two to four years after approval of the Act, unless the time be extended, to surrender the sovereignty of the United States and recognize the independence of the Philippines. In the concluding section of the bill, 34, the President is empowered "to settle and adjust all property rights and other relations as between the United States and the said Philippines and to cause to be acknowledged, respected and safeguarded all of the personal and property rights of citizens or corporations of the United States and of other countries resident or engaged in business in the said Philippines or having property interests therein."

Under acts of Congress approved July 1, 1902, and February 6, 1905, authority was granted to the Philippine Government and municipalities thereof to issue bonds to provide funds for the purchase of lands of religious orders and for various municipal and harbor improvements, and in pursuance of these authorizing acts some \$17,000,000 of bonds bearing four per cent. interest, both principal and interest being payable at the treasury of the United States, were sold under the direction of the War Department to the highest bidders, the price received in every instance being above par. When these bonds were advertised and sold it was represented to purchasers that their legality had been passed upon by the Attorney-General of the United

States, and in an opinion issued by the Department of Justice December 25, 1903, signed Henry M. Hoyt, Solicitor General, approved by P. C. Knox, Secretary of War, upon the legality of a proposed issue of Philippine land purchase bonds under the Philippine Civil Government Act of July 1, 1902 (published in Vol. 25, Opinions of Attorneys General, page 89), it is stated:

"The pledge of the faith and credit of the Philippine Government, covering the due application of the proceeds of the loan and the maintenance of the sinking fund, rests, then, upon authority explicitly conferred by the national power; and while in the strict and legal sense the faith of the United States is not pledged as a guaranty for the payment of the loan, or for the due use of the proceeds or the observance of the sinking fund requirements, the entire transaction is to be negotiated under the auspices of the United States, and by its recognition and aid. The assumption is, therefore, conclusive and necessary that the terms of the statute as to the application of the moneys realized from the sale of the bonds, and as to all moneys realized from disposition of the lands, and as to the sinking fund so created, will be strictly followed.

"I have the honor thus to suggest outside your precise query, that I see no reason for any legal doubt of the adequacy or extent of the protection and security given to the purchasers of the bonds; and on the whole case, and in response to your particular inquiry, I have the honor to say that I am clear in the opinion that the issue of bonds, and the form of bond proposed, are in strict conformity with the statute, and are legal in all respects."

While the Philippine bonds aforesaid, now largely held as investments by the banks of the country, are not in a strict sense legal obligations of the United States, they are unquestionably a moral obligation of the Government. The acts under which these issues were authorized provided for the accumulation of a sinking fund by the Philippine Government which, if maintained to maturity, would provide for the liquidation of this indebtedness, and investors of the bonds were led to purchase same in full belief that the United States Government was morally behind these issues and would safeguard the holders from loss.

But now it is proposed to turn the Philippines adrift and give them their freedom with no adequate provision for the protection of the holders of Philippine securities. The provision in the concluding section of the bill, above quoted, empowering the President to

settle and adjust property rights between the United States and the Philippines and cause to be safeguarded the personal and property rights of citizens of the United States resident or engaged in business in the Philippines or having property interests therein, is not broad enough to cover the rights of holders of Philippine bonds. In view of the unquestionable moral obligation of our Government to protect the holders of Philippine securities from loss in the event of granting independence to the Philippines, strong representations have been made to members of the House Committee on Insular Affairs and to members of the House of Representatives, calling attention to the situation and the necessity for some provision by which, if the people of the Philippines are given their independence, the rights of American holders of Philippine securities will be adequately safeguarded. It remains to be seen what Congress will do in the matter.

OPINIONS OF THE GENERAL COUNSEL

LOST LETTER OF CREDIT

Where letter addressed generally and authorizing specified customer, and not bearer, to draw for amount within stated period, is lost, duplicate can safely be issued without indemnity except as against customer's honesty.

From New Mexico—Will you be kind enough to advise if the bank can stop payment on one of its letters of credit? We issued a small letter of credit to one of our customers some time ago and he advises that same has been lost. There have been no checks drawn on this letter and he wants us to issue him a duplicate. The letter was drawn for thirty days, which have now expired. Kindly advise us the best method of procedure under these circumstances. Are we permitted to make a duplicate of the letter?

The letter of credit is in the ordinary form, I assume, addressed generally and promising to pay checks drawn by your customer up to the amount of the letter within thirty days from its date. Assuming it does not promise to honor checks of the bearer or holder but is a credit issued to a specified person only, no finder of the lost letter could utilize the same without impersonating your customer and forging his name to checks drawn against it. I see no reason, therefore, why you cannot issue a duplicate letter of credit to your customer who alleges that he has lost the original. The only possible risk is in case your customer has falsely represented that he has lost the letter, but in reality has issued and negotiated checks against same within the thirty-day period. Your bank would be liable to *bona fide* purchasers of checks so negotiated, and if there was reasonable ground for supposing such a thing possible, a bond of indemnity could and should be taken. But in the present case, the letter of credit, as you say, is a small one and, furthermore, in all likelihood if checks had been negotiated against it they would come in for payment in a reasonable time,

so that your bank would probably be perfectly safe in issuing to your customer a duplicate for the lost letter of credit, without indemnity. The thirty-day period of the original letter having expired, there would be slight, if any, risk in your now issuing a duplicate.

ELIGIBILITY OF DIRECTORS UNDER CLAYTON LAW

Director in state bank, member of Federal Reserve System, in city of over 200,000 population cannot be director of trust company and of capitalized savings bank in same place—Director of state member bank cannot also be director in national bank.

From Minnesota—Will you kindly advise us as to the situation one of our directors is in by reason of the Clayton Act. The population of Minneapolis is over 200,000. Our bank, a state bank, member of the Federal reserve banking system, has total resources under \$5,000,000. The director of our bank is also a director of a trust company, under state charter, which trust company is entirely controlled by stock ownership by a national bank. The resources of both the trust company and the national bank owning it are more than \$5,000,000. He is also a trustee in a capitalized savings bank under state charter, whose resources are over \$5,000,000. Will you kindly advise us if it will become necessary for this director to resign from any of the above directorates? We also have another director who is also a director in a national bank with resources greater than \$5,000,000. Will it be necessary for him to resign from one of his positions? All of the institutions above mentioned are in Minneapolis.

The provision of the Clayton Act applicable to your city is that "no bank, banking association or trust company, organized or operating under the laws of the United States, in any city or incorporated town or village of more than two hundred thousand inhabitants, as shown by the last preceding decennial census of the United

States, shall have as a director or other officer or employee any private banker or any director or other officer or employee of any other bank, banking association or trust company located in the same place."

This would prohibit a director of your bank, which although a state bank is operating under the laws of the United States by reason of being a member of the Federal reserve bank, from being a director of any other bank, banking association or trust company located in the same place. The provision applicable to cities of more than 200,000 inhabitants is irrespective of the amount of capital. It would seem necessary, therefore, if your director desires to remain with your bank, that he resign from the trust company and also from the capitalized savings bank. The act contains a provision that the law shall not "apply to mutual savings banks not having a capital stock represented by shares," but this exemption would not apply to a capitalized savings bank.

As to the other director of your bank who is also a director in a national bank with resources greater than \$5,000,000, it will be necessary for him to resign from one of these positions unless the law is amended before the act goes into effect.

SPECIFIC DEPOSIT NOT APPLICABLE TO CHECKS HELD FOR COLLECTION

Where a bank holds for collection checks upon itself without a deposit against same and receives a specific deposit from its customer to be paid upon a later described check, its duty is to obey the instruction and in so doing it incurs no liability to the owners of the checks which it holds for collection—Right to pay overdraft and apply future deposit thereto.

From Alabama—(1) Can we, without liability, when we have several checks of a certain customer left with us for collection, pay any new check which may be presented to us upon the request of the customer and deposit of funds to cover same, leaving the checks which we hold unpaid?

(2) Can the bank pay any check it may desire among checks left for collection, thereby overdrawing the customer's account, and apply the next deposit of the customer to the overdraft?

In the case first stated by you, your bank holds as agent for collection certain checks drawn upon it as to which there are no funds on general deposit to pay same. Your customer makes a deposit which, if general, would be applicable to payment of these checks but couples it with a request or direction that it be held or applied to the payment of a particular described check to be thereafter presented. This in law is what is known as a specific deposit or a deposit for a specific purpose. It is the duty of the bank to obey the instruction of the depositor which indicates the purpose to which the deposit is to be applied. *Drovers Nat. Bank v. O'Hare*, 119 Ill. 646; *Parker v. Hartley*, 91 Pa. 465; *Bank of British N. A. v. Cooper*, 137 U. S. 473. In the case stated, therefore, you can without liability

to the owners of checks held for collection, pay the check which your depositor has designated to be paid with the specific deposit. Such deposit being held for a special purpose—restricted to the payment of a particular described check—cannot be rightfully applied to the payment of other checks held by your bank for collection and failure of the bank so to do would not be a breach of its duty as collecting agent.

Your second question, as I understand, states a case where several checks are received, any one of which would be an overdraft, and relates to your right to select a particular overdraft and pay same and apply the next deposit of your customer thereto. The bank, of course, is under no obligation to pay any of the overdrafts, but if it chooses to pay one or more, it has the authority to do so. In such case, the overdraft so paid is in the nature of an irregular loan to the customer for which he is indebted to the bank and it has a right to apply any subsequent general deposit thereon not restricted to a particular purpose.

SET-OFF AGAINST MAKER AND INDORSER

Bank owning matured note has right to set off same against customer's account, whether maker or indorser, but where maker's deposit sufficient at maturity bank is bound to apply maker's deposit in relief of indorser.

From Pennsylvania—A note drawn on us for three months, indorsed by a second party, has been renewed several times, with an occasional payment by maker. Note in question became due November 10, 1915, maker and indorser were notified obligation was due, but no attention was given, whereupon note was protested. We held note at bank for instructions from maker or indorser and they simply ignored it in every way. After four months had elapsed, we charged the note with costs and interest to date to the indorser's account. We did this as we have done it before and no protest came from either party, and we are aware that several banks in this community adhere to the same practice. However, this particular indorser objected, so we are writing for information as to what course we may pursue. We charged this note to the indorser's account because the maker had insufficient funds. Will you also be kind enough to tell us if we might have charged above note to maker's account, providing his account would have warranted it?

In this case your bank owns an overdue note and the maker and indorser both carry accounts with your bank. The maker is indebted to you thereon as principal and the indorser is indebted as surety. If at maturity of this note, the maker had a general deposit in bank sufficient in amount to discharge the note and not specifically appropriated to any other purpose your bank, so far as the indorser is concerned, not only had the right but was bound to charge the note up against the maker's deposit in relief of the indorser and failure so to do would discharge him from liability. (*German Nat. Bank v. Foreman*, 138 Pa. St. 474; *Commercial Nat. Bank v. Henninger*, 105 Pa. St. 496.) But the maker's deposit must be sufficient at the time of maturity of the

debt; if insufficient at that time, subsequent deposits will not raise the duty. (*Peoples Bank of Wilkes-Barre v. Le Grand*, 103 Pa. St. 309; *First Nat. Bank of Lock Haven v. Peltz*, 176 Pa. St. 513.) There is a conflict of authority in the different states whether a bank is required to apply a sufficient deposit of the maker at maturity of a note in relief of the indorser, failing which and allowing the deposit to be checked out, the indorser will be discharged. The Pennsylvania cases, as above shown, hold that the bank is so required.

In this case, therefore, if the maker of this note had a sufficient deposit at maturity, it was your duty to apply same upon the note, and failure so to do discharged the indorser; but assuming the maker's deposit was insufficient at maturity, the obligation would not exist nor would subsequent deposits raise the duty and, having sufficient deposit of the indorser who is indebted to you on the note, you have the right to apply the indorser's deposit in satisfaction thereof. The rule in Pennsylvania has been thus stated: Where a bank is a holder of a promissory note and has on deposit at the time of maturity to the credit of any party liable to it on the note a sum sufficient to pay it, and not previously appropriated by the depositor to be held for a different purpose, the bank may apply the deposit to the payment of the note, yet it is not in general bound to do so. (*First Nat. Bank of Lock Haven v. Peltz*, supra; *Mechanics Bank v. Seitz*, 105 Pa. 632; *Bank v. Ralston*, 3 Phila. [Pa.] 328. See also *Shackamaxon Bank v. Kinsler*, 16 Weekly Notes Cases [Pa.] 509.) But as above shown, when the maker's deposit is sufficient at maturity, the bank is bound to make the set-off in the interest of the indorser.

BANK SET-OFF IN CALIFORNIA

Bank has right to apply maker's deposit upon his unpaid note at maturity unless it holds security for the indebtedness and right extends to note of customer purchased from indorser—Right of bank to apply indorser's deposit upon note discounted for his benefit.

From California—A has with us a balance of \$1,000. We hold A's note for \$500 which is past due. A refuses to pay said note. Can we charge his account for amount of note and interest without legal action? If A's note is made to a third party from whom we have purchased it in good faith, can we charge it to A's account if he refuses payment when due? If A is an indorser of a note, the maker of which refuses payment, can we charge A's account?

You ask three distinct questions. First, whether a bank in California, owning a past-due note which the maker refuses to pay, can apply the maker's balance upon the note without legal action. The rule is well recognized in California that where at the maturity of a debt due a bank from a depositor the latter's deposit is sufficient to meet the obligation, and it has not been specifically appropriated by him to be held for a different purpose, the bank has a right to apply such deposit to the payment of the debt. *Morgrage v. National Bank*

of California, 24 Cal. App. 103 (Feb., 1914), holding that the bank had the right at any time to offset any matured indebtedness owing by a depositor to it against his credit; *Marble Co. v. Merchants Nat. Bank*, 15 Cal. App. 347; *McKean v. German-American Savings Bank*, 118 Cal. 340. But in this last cited case it was held that the rule does not apply where the bank has security for the indebtedness. The court said:

"The reason of the rule that gives to banks the right to appropriate a deposit to the payment of the depositor's matured indebtedness does not apply where the bank has security for that indebtedness. The depositor's matured note, payable to the bank, is equivalent to a check drawn by him on the bank; and the right to charge up his note is practically only exercising the right to charge up his checks, for it is a presumption of law that it was his intent to have the note discharged from his deposit; and there is the reciprocal right of the depositor to have his deposit applied to the payment of the note in the event of the bank's insolvency.

"But could there be a presumption of such intent when he had secured his note by mortgage? It seems to me the rule contended for would compel a depositor who is a borrower to avoid keeping a credit account with a bank that held his note secured by mortgage; and if he kept his account elsewhere it would be imperiled by a possible transfer of the secured note to the bank where the creditors were, and, by this short cut, payment would be enforced, wholly ignoring the mortgage, and, I think, enlarging the rule above stated to an unauthorized extent."

Your second question is whether if your bank purchases from a third person, in good faith, a note made by your customer, it has the right to apply the deposit upon the note at maturity. I think so. It has been held that a bank holding an indorsed note may offset it against the maker's general deposit account. *Blair v. Allen*, Fed. Cas. No. 1483; 3 Dill. 101.

Your final question is whether, where you hold a note of which your customer is indorser and which the maker refuses to pay at maturity, the right to apply the indorser's deposit upon the note exists. It has been held that where a note has been discounted for an indorser's benefit, his deposit may be applied in payment at the bank's option. *Marble Co. v. Merchants Nat. Bank*, 15 Cal. App. 347; *Ticonic v. Johnson*, 21 Me. 426; *Bank v. Ralston*, 3 Phila. (Pa.) 328; *Manitou v. Bank*, 37 Colo. 344; *Pollack v. Bank*, 168 Mo. App. 368.

STALE CHECK

A check must be presented within a reasonable time but the exact period of time after which a check becomes stale or discredited and puts a purchaser or bank of payment upon inquiry, is not definitely fixed by the authorities—Statute of Limitations on check.

From Kansas—I would like to know a little about the life of a check. How far back can a check be dated and the cashier be compelled to honor, provided the account is good for the amount? Is there any specified time or limitation on a check being valid?

A check is payable on demand and must be presented for payment within a reasonable time. At what period of time after its date it becomes stale so as to put the bank on inquiry before making payment is not clearly settled by the authorities; in fact, there are very few adjudicated cases on the subject. In an early Pennsylvania case (*Lancaster Bank v. Woodward*, 18 Pa. St. 357) a check was paid more than a year after its date and at a time when there was not sufficient money in bank for the purpose. The drawer had, in the meantime, paid the debt for which the check was given. It was held the bank was put on inquiry and could not recover the amount from the drawer in an action on the overdraft. Whether the result would have been different had the account been good for the amount is not certain; the fact that there was not sufficient money on deposit was, however, a factor in reaching the decision. In a South Carolina case it has been held that where a check is presented at the end of six days from date it is not stale so as to put the bank on inquiry. (*Merchants and Planters Nat. Bank v. Clifton Mfg. Co.*, 33 S. E. 750.)

There are a number of cases involving the question whether a check, at the time of transfer, is stale so as to subject the purchaser to defenses. Two and one-half years in one case (*Skillman v. Titus*, 32 N. J. Law 96), five months in another case (*First Nat. Bank v. Needham*, 29 Iowa 249), and twenty-six days in another case (*Farmers Nat. Bank v. Dreyfus*, 82 Mo. App. 399) have been held to subject the check to equities in the hands of the transferee; while in other cases a transfer four, six, eight and ten days after date (*First Nat. Bank v. Harris*, 108 Mass. 514; *Rothschild v. Corney*, 9 B. & C. 388; *London & County Bank v. Groome*, 8 Q. B. D. 288; *Ames v. Meriam*, 98 Mass. 294) have been held not to have such effect. The Supreme Court of the United States has held that a transfer six months after date does not subject the purchaser to equities of the drawer against the payee. (*Bull v. Bank of Kasson*, 123 U. S. 105.)

The line of cases as to when a check becomes stale so as to be subject to equities, in the hands of a transferee, may have some bearing on the question when the check is stale so as to make it unsafe for the bank to pay without inquiry; but the authorities on the subject are very unsatisfactory so far as pointing to a definite period of time.

In this unsettled state of the law, with no common standard or period of time fixed by the authorities, it is impossible to foretell with any certainty just what a court would hold in any new case which came before it, as to what period after date a bank, to which a check is presented for payment, has the right to demand delay in order to communicate with the drawer before paying the check and to refuse immediate payment without dishonoring his credit. If there was a uniform custom among the banks of any locality to regard a certain period as reasonable, say six months or a year, this would probably have weight in establishing a definite rule.

You further ask whether there is any specified time after which a check is no longer valid. A check becomes outlawed according to the statutes of limitation of each state. After the period of limitation expires, action on the check is barred by the statute. There is some divergence of opinion of different courts as to whether the statute begins to run from the date of a check or from a reasonable time after date or from a time after date beginning with the end of the statutory period. This question will not now be discussed.

FORGERY OF DRAWER'S SIGNATURE

Drawee paying check on forgery of drawer's signature cannot recover from bona fide holder who received payment.

From Kansas—A check supposed to be drawn by a customer of ours is presented at the bank by a responsible merchant and the signature being apparently all right, the check is paid to the merchant. After about three weeks' time the customer has his book balanced and claims this one check is a forgery. The merchant had taken this check from another party. Now, is this merchant liable for this amount, or will the bank have to stand the loss? The signature is a perfect imitation but the customer makes affidavit that it is a forgery.

The rule is supported by numerous cases that the drawee is bound to know the signature of the drawer and, if it pays a check to a *bona fide* holder upon a forgery thereof, cannot recover the money paid. I do not find that the Supreme Court of Kansas has ever so held, but such is the doctrine supported by the weight of authority, although there are a few cases which are to the effect that if the holder receiving payment has been negligent in acquiring the instrument or would not be in a worse position if required to refund than before he received payment, recovery is permitted.

According to the weight of authority, your bank in the present case having paid a check upon which your customer's signature has been forged, can neither charge the amount to your customer nor recover the money from the merchant to whom it was paid; assuming, of course, the merchant gave value for the check and is an innocent holder. The fact that the forged signature is a perfect imitation of the genuine does not lessen the liability or obligation of the drawee bank. However, there is always a possibility in any such case that a customer might be dishonest and make a false affidavit, and this phase of the matter should be thoroughly looked into. But assuming the check a forgery, your bank, according to the weight of authority, is the loser.

DUTY OF COLLECTING BANK

Bank undertaking collection must use reasonable diligence and where it holds paper four months before returning same and it can be proved that debtor could have been forced to pay by prompt action but has since become insolvent, collecting bank is liable for amount of damages proved.

From New Mexico—On November 8, 1915, we enclosed for collection note of \$169 to a national bank in

Utah, with instructions to hand to their attorney and also giving instructions for the attorney as to how we wanted our collection handled, saying that the attorney should be very cautious and first ascertain quietly, if possible, what the party had before making known to him that we had sent this collection; when he ascertained if there was anything in sight to go after it, and enclosed a stamped envelope for their acknowledgment. Not hearing from them (the bank) we wrote again on December 20, 1915, asking what disposition had been made of our collection, again enclosing a stamped envelope. We again wrote on January 14, 1916, and not hearing from them, wrote again about a month later, asking as to our collection; this time registering the letter and received registry receipt. Not hearing from the bank, we wrote to the controller's office, explaining to them our grievance and asking for a reply; when finally, on March 2, 1916, we had a letter, enclosing our note, with the usual slip and the notation, "We return herewith; can get no response." You see they held up our collection for four months instead of carrying out our instructions to hand same to their attorney. By not sending notices to the maker, as they had authority to do, it may not be possible for us now to make the collection, as the maker may have arranged his affairs so as to make it hard for us to reach him. We would like to ascertain whether we have any recourse against the national bank in Utah.

It is a common usage for banks to make collections. A bank which receives paper for collection is under no obligation to perform the service, but if it is unwilling to undertake it, should decline the duty. Bank of Washington v. Triplett, 1 Pet. (U. S.) 37. In your case, the national bank in Utah to whom you forwarded the note did not decline the duty and return the paper forthwith, but retained same for four months, omitting, however, to acknowledge its receipt and also repeated letters of inquiry, but finally returned the note with the statement: "We return herewith; can get no response." This statement that it could get no response indicates that the bank assumed the duty of attending to the collection because it endeavored to get a response and, having assumed such duty, it was chargeable with reasonable diligence in connection therewith.

If you can affirmatively prove that, as a result of this delay of four months and failure to hand over to an attorney as instructed, you were damaged; for example, that the maker of the note was responsible when you forwarded the paper but in the interim became insolvent so that it is now uncollectible, you would have a right of action to the extent of the damage sustained. I refer below to a few cases which will indicate what you would have to allege and prove.

The liability of a bank negligently failing to collect paper received for collection is enforceable in an action of assumpsit for breach of its implied undertaking to use diligence or in an action on the case for damages resulting from negligence in the performance of duties imposed by law. Jefferson Co. Sav. Bank v. Hendrix, 39 So. (Ala.) 295. The declaration, petition or complaint should show the existence of the relation of principal and agent between plaintiff and defendant. Finch v. Karste, 56 N. W. (Mich.) 123. The complaint must allege that the plaintiff suffered damages from defendant's negligence. Jefferson Co. Sav. Bank v.

Hendrix, *supra*; Farmers Bank v. Newland, 31 S. W. (Ky.) 38. The owner must allege and prove the amount he has been damaged. Jefferson Co. Sav. Bank v. Hendrix, *supra*; Hendrix v. Jefferson Co. Sav. Bank, 45 So. (Ala.) 136. These last cited cases are to the effect that the mere failure of collection does not demonstrate the amount of loss to the owner, for he may have suffered no damages or only nominal damages from the defendant's dereliction.

But while the burden of proof is on the plaintiff to establish that he has been damaged by the defendant's negligence, and the amount thereof (Davis v. First Nat. Bank, 50 Pac. [Cal.] 666; Fox v. Davenport Nat. Bank, 35 N. W. [Ia.] 688), it is only necessary to show a reasonable probability that with due care the collection would have resulted. The burden then rests on the defendant to show that there was no damage. Dorn v. Kellogg, 74 N. W. (Neb.) 844. This was an action against a bank for negligently holding a draft unpaid after maturity. It was held not necessary for the plaintiff to prove with certainty that, but for the misconduct of the bank, payment would have been obtained. The fact that all the time the bank held the draft the merchant continued to conduct his business and had property, subject to execution, to the value of many times the debt, is sufficient to charge the bank, *prima facie*, with the amount of the draft. The court said: "It is claimed that there was no proof of damages; that is, that it was not shown that, had the bank been diligent, the drafts could have been collected. In such cases it is usually impossible to show with certainty that, if due care had been observed, collection would have been made. The law is not so rigid in its requirements for the protection of a negligent agent." Also in Finch v. Karste, *supra*, an action against a bank for fraudulently and negligently refusing to turn over to attorneys a draft in their hands for collection on receiving an order from the drawers so to do, until it obtained a mortgage to secure its own claim, evidence of the drawee's insolvency after the giving of such mortgage to the defendants, and the return of plaintiff's claim unpaid, in the absence of proof by defendants that there was further opportunity to collect the debt, raised sufficient inference to go to the jury.

The question of defendant's negligence is one for the jury. Thus in an action against a bank for the amount of an accepted draft sent for collection and which it held a month and returned uncollected, the petition alleged that by the use of reasonable diligence defendant could have collected it; that it negligently held it without trying to collect it; that plaintiff's agent would have collected the draft a week before it was returned but for defendant's representations; that on the day the draft was returned the acceptors stopped payment and that, after plaintiff learned that the draft was not collected, he made all reasonable efforts to collect it, but failed. The issue as to whether defendant was negligent was made by the evidence. It was held it was error to refuse to submit such issue to the jury

on plaintiff's request. *Diamond Mill Co. v. Groesbeck Nat. Bank*, 29 S. W. (Tex.) 169.

The above citations may be of use to your attorney in case you find that you have been damaged by the delay of the national bank in Utah in holding the note for four months before returning the same uncollected, and disregarding your instructions to turn same over to an attorney. The retention of the note for this length of time without sending you any advice before returning same, the bank having by its own admission undertaken the collection, is *prima facie* a negligent act, and if you are able to prove that the maker of the note was solvent when you forwarded same, that the note was then collectible and that, as a result of the delay and failure to follow instructions, the maker has become insolvent or put his property out of reach so that the note is no longer collectible, I think you would have a good case.

RIGHT OF PURCHASER OF STOPPED CHECK

Where check, after issue, is countermanded because of fraud, bank which cashes check for payee is a holder in due course and can enforce payment from drawer.

From Kansas—A party in an adjoining city issued a check to a representative of a company. Shortly thereafter the drawer of the check on investigation found that the goods bought were of no value, and issued a stop payment order against the check, with the bank on which it was drawn. During this time the representative had cashed the check at the adjoining town without any identification. Upon the check being sent to the bank on which it was drawn, it was returned because payment had been stopped. Has the bank which cashed this check any recourse on the drawer of the check?

The fact that the drawer of a check stops its payment because he has been defrauded does not affect his liability should the check be negotiated to a holder in due course. Of course there is no liability to such holder by the bank upon which the check is drawn, but he has a right of action against the drawer and prior parties. In this case, the question would be whether the bank which cashed the check is a holder in due course. The fact that it cashed the check without requiring identification of the holder would not affect its status in this particular, and if the person to whom the check was issued had the right or authority to negotiate it, there would be a clear liability of the drawer to the cashing bank. In this connection, you say the check was issued to the representative of a company and was cashed for such representative by a bank in an adjoining town. If it should be the fact that the check was made payable to a corporation and it could be established that the representative who indorsed the check had no authority from the corporation to indorse, the drawer would probably have a good defense against the cashing bank, for in such case the latter would not have an enforceable title free from equities; but assuming the fact to be that the check was made payable to the

representative personally, or if made payable to a corporation, that the representative had authority to indorse and negotiate for or in the name of the corporation, the bank which cashed the check would be a holder in due course and the drawer would be liable to such bank for the amount thereof.

RECOVERY OF MONEY PAID ON RAISED CHECK

Money paid by drawee upon raised check is recoverable as paid without consideration in the absence of special circumstances of negligence or laches making payor bank responsible—Fact that alteration apparent on face does not prevent recovery as such fact equally apparent to holder.

From Oregon—On February 8 we cashed a check drawn on a bank in a neighboring town for \$40.90. We forwarded the item to our Boise correspondent and they sent it to the bank on which it was drawn, by whom it was paid and cancelled on February 10, 1916. Today we received the check from our Boise correspondent, who advises us that the bank on which the check was drawn returned it to them yesterday, claiming that the amount of the check had been altered. The check is written with indelible pencil but very plainly shows that the amount has been changed. We would like to have your opinion as to who is liable for the discrepancy between the \$20.90, the correct amount of the check, and the \$40.90, the amount that was paid. Our understanding of the law is that if the alteration or forgery is plainly evident, and if the final paying bank passes the check and cancels it, that they are liable for any loss arising from the forgery or alteration. However, if the alteration or forgery is so well done that it is almost impossible to detect it and only the original drawer of the check can tell as to whether it is forged or raised, then the paying bank is allowed sufficient time to return the check in the regular course of business to its customer and have him return it to them.

The general rule is sustained by numerous authorities that where money is paid by the drawee bank upon a raised check by mistake, it may be recovered back from the person to whom it was paid, as having been paid without consideration, unless the holder is in some way prejudiced by the negligence or laches of the payor bank. This rule would apply to the case stated by you and entitle the payor bank to recover the excess \$20, received by you through your Boise correspondent, as having been paid without consideration. The fact that the check very plainly shows that the amount was altered would not, I think, affect the payor bank's right of recovery. That bank is not bound to know anything more than the drawer's signature, and while there was an apparent alteration on the face, this fact was equally patent to your bank which cashed the check as to the drawee bank which paid it. There was no unreasonable delay after discovery of the forgery in giving your bank notice thereof and, under the general rule above stated, I think the payor bank has a right of recovery.

LIABILITY OF DRAWER OF CHECK

Payee's right of action against drawer of check given to take up his note which payee, as indorser, had been compelled to pay.

From Oklahoma—In the summer of 1912 one Smith indorsed a note for \$250, signed by one Brown and John Doe, at the bank of A. When the note became due Smith was compelled to pay the same. Smith later took two checks from John Doe—upon a member bank in this city—one for \$53.50 and one for \$196.50 and he thereupon turned over the note. The checks were presented to the member bank. The check for \$53.50 being paid, but the one for \$196.50 was returned marked "Insufficient funds." Smith then saw John Doe and he promised to pay this check of \$196.50 after January 11, 1913. Turning the check over and indorsing it on the back as follows: "O. K. after 1-11-13, John Doe." When presented to John Doe after January 11, 1913, he asked Smith to hold it until the outcome of a lawsuit in which John Doe was on Smith's bond in the amount of \$250. After this was settled without liability on John Doe's part, the check was presented to the member bank for collection, and when presented to Mr. John Doe for payment, he wrote on the back of the check, as follows: "Go to h—ll for your money," and had it returned. Can this check be collected by suit? Did

John Doe's first indorsement, "O. K. after 1-11-13" make it a promise to pay, and if so, when must suit be started? Could suit be entered against John Doe, without possession of note, under the above circumstances?

I see no reason why Smith cannot sue John Doe on his unpaid check for \$196.50 given, with another check which was paid, to take up his note which Smith, as indorser, had been compelled to pay. The check was based on a valuable consideration, namely, the unpaid note which was surrendered and would support a cause of action. It is not necessary that Smith possess the note, as the action would be upon the check not upon the note. Should Doe deny that the check was given for a valuable consideration, the production of the note might be useful as evidence of consideration and he could be compelled to produce same or permit secondary evidence of its contents to be introduced. The fact that after the check was dishonored Doe indorsed thereon "O. K. after January 11, 1913," does not alter his obligation, which is a promise, as drawer, to pay the check if the drawee refuses. The indorsement is only a superadded promise to pay at a future time. Suit can, therefore, be begun at any time against Doe on this check up to the period of the statute of limitations.

THE SOUTH AMERICAN TRADE MISSION

A significant and rational theory held by *La Nacion*, a paper published in the Argentine, is that after the war Germany will be the most formidable trade rival of the United States in the South American market. Says the *Review of the River Plate*, published in Buenos Aires:

"If the North Americans do not 'make good' down here it will certainly not be for lack either of opportunity or friendly and faithful and frequent advice! In the meantime it is noteworthy that no less a personage than Mr. McAdoo, the Secretary to the United States Treasury, is shortly due in Buenos Aires, to be present

at the conference on unification of American commercial legislation, which is to open on third April next. Mr. McAdoo is to be accompanied by the sub-secretary of the treasury, and both by their wives. There is also to be a commission of fifteen commercial delegates. It is probable that the journey to Buenos Aires will be made on a United States warship. The affair promises to be a well calculated spectacular display of strength (the warship), wisdom (the men), and beauty (the ladies); a legitimate court paid to Argentine sentiment, and certainly not a case of 'McAdoo about nothing.'"

ARGENTINA HAS ONE, TOO

The president of the republic signed a decree on Wednesday, closing the extraordinary sessions of congress, which have constituted a farce for the last few weeks. Political effervescence, in view of the presidential election and the renovation of half of the Chamber of Deputies, the hot weather, and the attractions of Mar del Plata—social and salubrious—have contributed to making the most urgent "whips" of no avail. On Wednesday, under threat of not being paid their salaries

unless they collected them personally, sixty deputies put in an appearance. One more, and the session could have been held; but the necessary one failed to appear, and thus ended a very ignoble parliamentary period. Many people hope that the new presidential term and the half new popular chamber will usher in the dawn of a brighter political era in Argentina. We hope they will not be entirely disappointed.—From the *Review of the River Plate*.



TRUST COMPANY SECTION

OFFICERS OF THE TRUST COMPANY SECTION

PRESIDENT
JOHN H. MASON, Vice-Pres. Commercial Trust Co.,
Philadelphia, Pa.
FIRST VICE-PRESIDENT
UZAL H. McCARTER, President Fidelity Trust Company,
Newark, N. J.

CHAIRMAN EXECUTIVE COMMITTEE
FRANK W. BLAIR, Pres. Union Trust Co.,
Detroit, Mich.
SECRETARY
PHILIP S. BABCOCK, Five Nassau Street, New York City.

EXECUTIVE COMMITTEE MEETING

The Spring Meeting of the Executive Council of the Association will be held at Briarcliff Lodge, Briarcliff Manor, N. Y., on May 8, 9 and 10. In accordance with custom the first day, May 8, is set aside for committee meetings and meetings of the Executive Committees of the several Sections. A meeting of the Executive Committee of the Trust Company Section will, therefore, be held at that time.

The attention of state vice-presidents is called to the following provisions of the Section's by-laws: "The vice-presidents of the Section shall be invited to attend the meetings of the Executive Committee and shall generally act in an advisory capacity to the Executive Committee, but shall not be entitled to vote."

This meeting is called to consider matters of interest to the Section and to receive reports of work since the adjournment of the last convention and to a large extent to arrange a program for the next annual convention to be held in Kansas City, Mo., in the autumn.

Since much of the success of the annual conventions is due to the interest of members in suggesting topics for discussion and for addresses, it is earnestly hoped that members will communicate promptly with the secretary any suggestions they may wish to make on these lines.

The secretary has sent to all the members of the

Section a letter regarding this meeting, and as it may not have been brought to the attention of those most interested it is printed herewith:

"To the Member Addressed:

"The annual conventions of this Section have increased in interest and value as the members have co-operated by suggesting topics for addresses and discussion and by being represented by delegates prepared to discuss the topics proposed and selected.

"While the convention will not be held until the autumn, the Executive Committee will meet on May 8 to consider matters of interest to the Section and to outline a program for the convention.

"You are earnestly requested to advise me, before that meeting, of any matters which you would like brought to the attention of the committee, and particularly to make suggestions regarding the program as to any topics which you would like to have discussed at the coming convention.

"The committee will be pleased to receive any suggestions for addresses to be delivered before the convention and for the names of those who could interest and instruct the members by preparing and delivering papers and taking part in the general discussions.

"Very truly yours,

"P. S. BABCOCK, *Secretary.*"

BOOKLETS FOR BANKERS

Approach of the date when section eight of the Clayton Anti-Trust Law becomes effective has led the Mechanics & Metals National Bank of New York City to publish a digest of the section, for distribution among banks throughout the United States. It is in booklet form, and bears the title, "The Bank Director and the Clayton Law." Provisions of section eight, forbidding the so-called interlocking system of directing banks, will become operative on October 15, two years having been allowed by Congress in 1914 for readjustment of the old order of directing banks. By reason of the involved language and ambiguous terms used, bank officers and directors generally have found it difficult to learn the extent of the application of the section, and, in a great many cases, are today as much in the dark regarding their own position under the law as when it was enacted. In the booklet of the Mechanics & Metals National Bank the matter has been treated simply and concisely, inter-

pretation being made as clear as the terms of the law permit. There has up to this time been no judicial utterance on the subject, but opinions of the Federal Reserve Board's counsel at Washington have been used to good effect in helping the unofficial interpretation of this booklet.

"Russia" is the title of a booklet just put out by the Guaranty Trust Company of New York as a matter of timely interest in connection with the large volume of export business from the United States to Russia developed during the present war. In this country little is known of Russia and her resources and consequently the present booklet will find a welcome place. It contains information concerning Russia's finances, public utilities, railway, postal and telegraph service, agricultural products, timber, manufactures of all kinds, the iron and steel industry, prices of Russian securities, etc., and general facts about the population and climate.

SAVINGS BANK SECTION

OFFICERS OF THE SAVINGS BANK SECTION

PRESIDENT
N. F. HAWLEY, Treasurer Farmers & Mechanics Savings Bank, Minneapolis, Minn.

FIRST VICE-PRESIDENT
GEORGE E. EDWARDS, President Dollar Savings Bank, New York, N. Y.

SECRETARY
MILTON W. HARRISON,
Five Nassau Street, New York City.

A SYSTEMATIC SAVINGS PLAN FOR WAGE EARNERS

Many methods and much good sound advice of the highest order will be offered this year to the man who has failed to save, but unless a method goes to the root of the matter and provides a simple and direct plan by which an employee may have a definite part of his salary deposited each pay-day, it will fail, the non-saver will not be permanently benefited and all the good sound advice of the highest order will be wasted.

There is a variety of plans which have been adopted by factories and corporations throughout the United States, and some have met with considerable success in their operation. Many of them are paternalistic in character and have a tendency to antagonize the workingman. He is very prone to resent charity or the benevolent attitude of his employer. Being proud of his independence he demands that it be respected. Of course, there is a number of profit-sharing plans which are desirable in obtaining a greater degree of co-operation between employer and employee. For example, the Beech-Nut Packing Company of Canajoharie, N. Y., has adopted a profit-sharing plan whereby they pay to each employee who has been in their services a full year \$3.00 for every year of service. This is paid about the holiday period.

The International Harvester Company issued a circular to their employees December 23, 1915, which stated: "In order to reward continuous service and assist employees to become stockholders in this company and share in its profits, the directors announce the following profit-sharing plan: First, any employee may subscribe for a profit-sharing certificate for \$50 or any multiple thereof up to the sum of \$1,000. The payments for the certificate shall be made in specified sums of not less than \$1 nor more than \$25 per month, which may be regularly deducted from the employee's wages. Whenever the employee is unable to work for the company because of shut-down or of his sickness or accident disability, his payments may be temporarily reduced or suspended. In case the holder of a profit-sharing certificate ceases to be an employee of the company, the amount to the credit of his certificate shall be payable to him in cash within thirty days thereafter, after which date it will not bear interest."

The Pennsylvania Railroad Company and the Baltimore and Ohio Railroad Company both have savings funds for employees. The Pennsylvania has an arrangement under which employees may leave with the company such portion of their wages or earnings as they may desire to save, the company agreeing to pay a certain rate of interest on such deposits—at present

three and one-half per cent.—and guaranteeing the payment of such interest and the safe return of the principal. On December 31, 1915, there was \$6,211,290.05 in the saving fund. The B. and O. operates a saving fund in connection with the relief department and on June 30, 1915, there were 8,949 depositors with \$8,787,816.22 on deposit. These funds have been going on for years and have done much to secure the loyalty of the employees for the company. There are no bonus features to either plan.

On the theory that a thrifty workman is a better employee than an unthrifty one, direct encouragement of thrift by the employer is manifestly important. Give the employee an account in a savings bank, let him provide for himself a comfortable nest-egg, and it will in nine cases out of ten produce contentment, which is exceedingly vital in promoting efficiency.

The Centennial Thrift Campaign would fall short of its mark if some concrete plan were not adopted, which would provide the wage-earner with some direct means of saving his money. The plan which the American Bankers Association has to offer is simple and direct in its operation and is fully embraced in the three paragraphs following:

First. That so far as the employee is concerned he merely fills out the usual savings bank forms as well as form for systematic saving and his savings are thereafter deposited as he has directed without any action on his part.

Second. So far as the employer is concerned, he (if it is a large concern of more than 1,000 employed) or his commercial bank depository (if the concern employs less than 1,000) issues savings checks (by a rapid and mechanically accurate process) payable to savings banks as directed, encloses receipts in pay envelopes of employees and sends the checks to the savings banks.

Third. The savings banks merely receive savings checks attached to deposit slips giving explicit directions as to disposition of funds.

In a word, the plan is a new field for a special form of savings check embodying a simple and direct method by which any one working on a salary may set apart definite amounts each pay day and have these amounts deducted from his pay and placed directly to his credit in any savings bank, and all this without inconvenience, loss of time or expense of carfare or postage.

Mr. W. N. Cassel is largely responsible for devising the plan. It is being given a practical test by the Sheffield Farms-Slawson-Decker Company of New York City which employs approximately 3,000 men.

THRIFT CAMPAIGN TAKES DEFINITE SHAPE

The slogan, "A Million New Savers in 1916," adopted by the American Bankers Association, has already spurred many onward towards the desired goal in the Centennial Thrift Campaign. Individual banks and the Chapters of the American Institute of Banking are doing splendid work in the promotion of thrift. But vastly greater results will accrue if the effort throughout the entire country is concentrated for a season on definite, concrete plans which are designed to reach every individual in the school, the home and the factory.

The prosperity of the nation is the sum of the prosperity of its individuals. The Centennial Thrift Campaign has been developed with the idea of *going to the individual*, wherever he may be found, with the message of the rewards of thrift. In order to imbue lasting ideals of thrift, the theme must be presented in its most attractive phases. People must be made to *want* to be thrifty. They must be encouraged, not only to make a start, but to keep right on until the act of saving money becomes automatic—a *habit*. The message must be taken to the individual, therefore the campaign employs the media by which the masses, and the classes as well, may be reached.

The Avenues of Approach

Large numbers will be reached through the newspapers. The pupils in the school rooms will be supplied with lessons in thrift rarely found in the school curriculum. The parents in the home will be reached through the school children and through other avenues. The street cars, the great gathering place of thousands, many of whom do not read newspapers, will offer an important place of contact in reaching the people. The moving-picture houses, now the meeting place of countless thousands will also be utilized.

The factory, the store, the office are utilized to the fullest extent as places from which to distribute the vital message of the centennial year. The churches, the civic and other organizations are to be asked to do definite things and help bring this campaign to a successful and memorable conclusion.

The plan does not commit the error of inviting public co-operation and stopping there. It tells just how various agencies can co-operate, and puts in their hands material with which to work. *The entire plan has this one object in view—to make thrift a habit with every individual in the community.*

The American Bankers Association will furnish the plan to any community upon request. The literature, advertising copy, etc., will be supplied at cost. The cost of the campaign will depend largely on the size of the community in which it is operated, the number of factories and persons employed, the school population, etc. Newspaper rates, street car space rates and moving-picture house charges will also enter into consideration. A form of budget will be furnished on which the committee can readily list the necessary supplies and costs, thus arriving quickly at the total expense of the campaign.

The plan is the result of long investigation, experience and discussion upon the part of persons particularly qualified for this work.

It is hoped that the Centennial Thrift Campaign will be inaugurated on a nation-wide scale. Then the slogan, "A Million New Savers in 1916," will become a reality. Millions more, already savers in some degree, will be inspired to increase their savings steadily. The grand result of the campaign will be a more prosperous people, a better citizenship and a vastly larger per capita of savings.

SAVINGS BANK PUBLICITY

STATE OF NEW HAMPSHIRE
OFFICE OF BANK COMMISSIONERS

CONCORD, March 18, 1916.

TO THE EDITOR,

SIR: In your magazine for March is an editorial, "Savings Bank Publicity," that states that "The Bank Commissioners of New Hampshire have forbidden the savings banks of that state, which are mutual savings banks, to advertise."

This statement is erroneous. The only action we have taken in regard to advertising is to discourage it where it was producing an unhealthy competition among the savings banks in a given locality, or where the bank's expenses were in excess of the expense limitation fixed by statute.

While we could have forbidden advertising if a bank was exceeding its expense limit, this has not been necessary, as the officers have readily complied with our suggestions.

Reasonable advertising that encourages thrift, if within the bank's expense limitation and not productive of competition which endangers the safety of banks, and that presents the advantage of savings banks to the public, is entirely within the province of the savings banks of this state.

We have dealt solely with the individual cases as they have come to our attention, and it has not been necessary to establish any rule of action.

JAMES O. LYFORD,
Chairman.

SECTION NOTES

The United States Postal Savings system has started an extensive advertising campaign by having the letter carriers distribute from house to house cards the size of a postal, on which is printed:

Savings deposited at the post-office are absolutely safe.
Any person ten years old or over may open an account.
A married woman may deposit in her own name.
One dollar will start an interest-bearing account.
Ten-cent savings stamps may also be purchased.
Withdrawals may be made at any time.
Call at the post-office for additional information.

If the existing national banks, state banks and trust companies do not provide savings departments or do not actively encourage thrift, a greater power with which competition is impossible will provide the adequate means to take the savings of the people. Three things are necessary to remedy this entire situation: Service on the part of the bank to the depositor, safety and stability in investments and active encouragement of thrift.

The Commissioner of Finance of the City of St. Paul is trying to put through a scheme whereby he buys city bonds and issues against them participating certificates of deposit payable upon demand with interest at four per cent. In other words he is issuing a demand obligation against a long term obligation, which latter can only be realized on in a market subject to constant fluctuations in values. It is just as though one John Smith should borrow \$1,000 upon a promissory note payable upon demand with interest to date, and then invest the \$1,000 in a city bond which will not mature for fifteen or twenty years. If the holder of the promissory note should at any time demand his money, the only way John can pay is to sell his bond. If the bond market happens to be a little off, and John is obliged to sell his bond for \$950 instead of \$1,000, the next question is: How is that promissory note—which, in the case of the city, is the participating certificate—to be paid? An example of municipal frenzied and high finance.

A bank in Chicago offers ten prizes to the persons who send in the correct answer to this problem:

"What will be the amount at the end of fifty years if ten cents a day is saved and placed at three per cent. interest compounded semi-annually?"

Portland, Ore., Chapter is accomplishing real results in the promotion of thrift. President Dobie is to be commended. Mr. T. H. West, of the Ladd and Tilton Bank, is chairman of the committee which is doing such meritorious work.

The Equitable Life Assurance Society sent out over ten thousand booklets boosting the Centennial Thrift Campaign, and stated on the outside covers: "Preach life insurance, not in opposition to, but in co-operation with the savings bank." It is only through team-work that the good work will be done.

A new departure for a mutual savings bank, and they would all do well in following the example set, is

found in the establishment of a service department in the Savings Bank of Utica. "The department endeavors to advise the depositors on questions of investment and, in fact, to act as nearly as possible as a father confessor of business." This is true mutual savings banking.

The *Chicago Daily News*, March 9, stated: "Savings banks were established in various Chicago public schools about a year ago. The records up to December are reported to show that the total number of depositors was then 17,726, that the total amount deposited during the period was \$36,389, and that the total amount of withdrawals was \$13,963. Chicago ought to have a great many more school banks in order that its young people may acquire the habit of judicious saving."

On March 22 seventy-five new school banks had been established in New York City. The objective—"One Hundred New School Savings Banks by May 1"—looks as though it would be a reality.

The Centennial Thrift Committee of Chicago has recently been appointed, and before the Spring is over the great metropolis of the Middle West will ring with thrift and savings, for they have a committee of live-wires.

New Orleans continues to maintain considerable interest in the Centennial Thrift Campaign. Undoubtedly permanent results will be received, which will be shown in increased deposits and more depositors.

A recent report of the San Francisco Board of Education states that 15,268 pupils have savings accounts with a total deposit of \$236,536.83. And the system was started only August, 1911.

The Savings Banks Association of the State of New York is conducting a prize essay contest for the best story on "Thrift." The contest is limited to public high schools.

A bill authorizing savings banks among the school children in New Jersey was passed February 29, and is now a law.

The New York *Evening Mail* has started a contest in co-operation with the American Bankers Association for the best stories of about one hundred words each on "How I Saved My First Fifty Cents in a School Savings Bank or Home Bank." Two hundred and twenty-eight prizes aggregating \$400 will be given away to the elementary school children. It is interesting to note how New York is awakening to the thrift idea.

A number of commissioners of banking of the various states have written the Secretary of the Section commenting on the thrift campaign and offering their hearty support and co-operation. Some of these letters will be printed next month.

We still have a number of copies of the book of forms. Any member can obtain one at cost—\$4. Seven dollars to non-members.

CLEARING HOUSE SECTION

OFFICERS OF THE CLEARING HOUSE SECTION

PRESIDENT

J. D. AYRES, Vice-President The Bank of Pittsburgh, N. A.
Pittsburgh, Pa.

VICE-PRESIDENT

W. D. VINCENT, Vice-President Old National Bank,
Spokane, Wash.

CHAIRMAN EXECUTIVE COMMITTEE

JOHN MCHUGH, Vice-Pres. Mechanics & Metals Nat'l Bank,
New York, N. Y.

SECRETARY

JEROME THRALLS, Five Nassau Street, New York City.

AN IMPROVED PLAN OF CONVEYING "NO-PROTEST" INSTRUCTIONS

Any bank that receives from its customer a check or draft on a bank which it desires to have handled as a "no-protest" item can convey such instructions through several intermediate banks to the final paying bank by means of an inexpensive rubber stamp. To do this an impression of the stamp should be made on the face, and as near the right-hand end of the item as is possible. The stamp should be $\frac{1}{2} \times \frac{3}{4}$ of an inch in size; and should contain the letters "N.P." and the universal numerical system transit number of the bank, and should be *preferably* of the following design:*

N. P.
83-164

The instructions on the cash letter accompanying the item should include the following: "Protest all items over \$20 not bearing this stamp (as above) or similar stamp containing the transit number of a preceding bank indorser."

The teller will place an imprint of his stamp on every item of over \$20 that passes through his department, and which is to be handled as "no-protest."

When this plan is in complete operation the clerks who handle the incoming and outgoing mail in subsequent banks will be relieved from examining carefully such items and comparing the items with the letters in order to determine what items are to be treated as "no-protest." If the cash letters read as above indicated the instructions will be automatically conveyed through all hands to the paying bank.

Tags bearing "no-protest" instructions pinned or pasted to checks, as well as the numerous symbols now in use, together with all of their attending annoyances will disappear.

Some banks may want to continue the practice of making a special record on their outgoing cash letters

as to what items are to be handled as "no-protest." This may be done by placing the letters "N.P." or such other notations as are satisfactory either to the right or left of the amounts of the items to which they apply.

It is desirable to make the plan universal in its scope. It is simple and easy of application. Its installation causes little or no expense. A great number of banks, both large and small, have adopted this scheme, and after having used it for several months report it highly satisfactory.

Where banks have a large supply of cash letters on hand, of course it will be necessary for them to procure a rubber stamp with which to change the instructions on these letters. A stamp of the following form is recommended for this purpose:*

N. P.
83-164

Protest all items over \$20.00 not bearing this stamp or similar stamp containing the transit number of a preceding bank indorser.

This stamp can be procured from the Clearing House Section of the American Bankers Association at the actual cost of twenty-five cents each. The other stamp will also be furnished to you at actual cost, fifteen cents each, by the Clearing House Section, or you may find it convenient to secure these stamps from your local dealer.

A little co-operation will make this plan a success. If your bank has not adopted it, and will communicate with the secretary he will be pleased to furnish such additional information as you may desire.

General Counsel Paton has given opinion that in his judgment there are no objections to this plan from a legal standpoint.

*The number assigned to your bank under the universal numerical system should appear on the stamp which you use.

NEW MEMBER

The Butler Clearing House Association, of Butler, Pennsylvania, enrolled in the Clearing House Section under date of January 29, 1916.

SPRING MEETING

The next meeting of the Executive Committee of this Section will be held at Briarcliff Lodge, Briarcliff Manor, N. Y., May 8 to 10, 1916.

THE CLEARING AND CHECK COLLECTION SYSTEM

The Federal Reserve Act includes under Sections 13 and 16 provisions regarding certain clearing functions to be performed by the Federal reserve banks, and the charges that may be made for such service. (A reprint of the part of Sections 13 and 16 referred to may be found at the close of this article.)

The Federal Reserve Board has devoted an immense amount of time and thought to these provisions and has made earnest effort to determine upon a satisfactory, scientific and workable plan. The text of the law is not clear and the Board, because of difference of opinion among the members, has found it necessary to call upon the Attorney-General of the United States for his opinion regarding certain of its features.

The Federal reserve banks were urged to put into operation some tentative plan of clearing within their respective districts. Prior to this, however, some Federal reserve banks had inaugurated a mandatory system under which items drawn upon member banks were immediately credited to the depositing members, and were immediately debited to the accounts of the members upon which drawn. With the exception of the Federal Reserve Bank of Kansas City, these plans have been modified and the present status is that one Federal reserve bank holds that it has a right, under the law, to enforce the clearing of checks at par on the above basis. Other Federal reserve banks hold that in their opinion the law does not intend that the Federal reserve banks shall perform any actual service in the way of clearing of items, but are intended to serve only as regulators of exchange. Still others hold that the clearing feature should be on a voluntary basis, that is, voluntary from the standpoint of the member banks.

Under the latter plan, the members are invited to join the clearing system and in so doing to authorize the Federal reserve banks to charge items drawn upon them to their respective accounts with the Federal reserve bank, and to agree to carry with the Federal reserve bank sufficient funds to protect such items. In some instances the Federal reserve banks require that these agreements be entered into and the authority to charge items to accounts be granted only through resolution of the boards of directors of their respective members.

Banks outside of the cities wherein the Federal reserve banks are located are reluctant to bind themselves to carry excess balances with the Federal reserve banks, and are slow to break away from their old and established connections for the purpose of trying a new scheme, the cost of which is unknown. The secondary reserves which have served as a basis for collection are and have been earning considerable interest. The banks are loath to waive this revenue. The same is true with reference to waiving the exchange charges.

The combined volume of business handled by the twelve Federal reserve banks to date is not sufficient to justify a conclusion as to the feasibility of any plan that has yet been undertaken by any of these institutions. Probably less than eighteen per cent. of the mem-

bers of the Federal reserve system have definitely committed themselves to the clearing plan in operation in their respective districts.

The clearing of checks is a highly important matter and one that is very closely linked with the reserves; in fact, checks are a form of currency which fluctuate to meet business requirements. At least ninety-five per cent. of the business of the country is transacted through checks and drafts, and with the growth and development of our various lines of industry there has come a proportional increase in the number and volume of these items.

The use of the personal check has been encouraged by both city and country bankers. It has been a means of inducing hundreds of thousands of people to open bank accounts. It is a very convenient servant that saves the customer much time and trouble. While its use has gradually heaped upon hundreds of banks a burden of expense, which is almost unbearable, it has become a direct revenue producer for others, and even when remitted for at par, it is an indirect producer for practically all interior banks.

The present collection system, while admittedly defective, is the result of fifty years of experience, and cannot be completely overthrown without serious interruption to business. What should be done is for all bankers to study and view this question from a nationwide standpoint and co-operate to the end that a system may be developed that will be generally satisfactory and will render the best service at the least possible expense.

In Atlanta, Boston, Kansas City, Nashville, New York, Oklahoma City, Richmond, St. Louis and other important cities a plan of collecting cash items through the clearing house has been instituted. This plan has been put to the test under varying and most unsatisfactory conditions, and has proven a success from the standpoint of economy and service.

If it is desirable for the Federal reserve banks to maintain clearing departments, their operations should be so arranged as not in any way to impair the ability of the reserve banks to take care of the maximum credit needs of their respective districts. A plan might be arranged whereby the clearing department of the reserve banks might be put on a self-sustaining basis, and the banks that patronize this department would bear the expense of its maintenance.

Items should not be charged to the account of any member of a Federal reserve bank until sufficient time has elapsed for the items to get into the hands of the member bank on which they are drawn. If checks or drafts on non-member banks are collected for the accounts of members, the cost of collection and the exchange charged thereon should be assessed against the members indorsing the items to the Federal reserve banks, and these charges should be passed down the line to the drawers of such checks or drafts. Under no conditions should a member of a Federal reserve bank be permitted to absorb the cost and exchange charges in-

curring in collecting non-member items through the Federal reserve bank.

It is not only desirable but imperative that every possible effort should be made to improve the collection systems in the commercial banks throughout the country and to establish and maintain a country clearing house in every city that has sufficient business to justify the maintenance of such an organization; also to co-operate with the Federal Reserve Board and the Federal reserve banks in their efforts to work out a plan of clearing along the above lines. The development of these three channels for liquidating cash items can be carried on harmoniously. They can be dovetailed and the volume of business will naturally flow into the channel that affords the best service at the lowest cost, whether that channel be the country clearing house, the regularly organized commercial banks or the Federal reserve banks.

This question can be definitely solved only when proper regard is given to equity, service and economy.

References to Sections 13 and 16 of the Federal Reserve Act

Section 13. POWERS OF FEDERAL RESERVE BANKS. * * * Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national bank notes, Federal reserve notes, or checks and drafts upon solvent member banks, payable upon presentation; or, solely for exchange purposes, may receive from other Federal reserve banks deposits of current funds in lawful money, national bank notes, or checks and drafts upon solvent member or other Federal reserve banks, payable upon presentation.

Section 16. NOTE ISSUES. * * * Every Federal reserve bank shall receive on deposit at par from mem-

ber banks or from Federal reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank, and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

FORMS FOR ORGANIZATION

Suggested articles of association, by-laws and forms will be prepared for the use of any group of bankers that may desire to organize a Clearing House Association. They will be ready for distribution at an early date, but in the meantime the secretary of the Section will be glad to respond to any inquiries for information necessary in forming such organizations. Through error it was stated in the March edition of the JOURNAL-BULLETIN that these forms might be secured on application to Rand-McNally Company, of Chicago. They will be distributed only from the office of the Section.

CLEARINGS

The total money supply of the United States on January 1, 1916, according to treasury figures, was \$4,401,988,000 against \$3,972,373,000 on January 1, 1915. These figures include Federal bank notes, national bank notes, government notes and gold and silver coin or certificates.

Foreign securities held in the United States are valued at about \$1,250,000,000.

There are 494 banking institutions in New York State. Between January 1, 1915, and January 1, 1916, they have increased their resources more than \$1,000,000,000.

In point of number, the banking institutions of New York State represent less than two per cent. of the banking institutions of the country. The average bank resources for each concern in the United States are about \$1,000,000. The average banking resources for each concern in New York State are more than \$11,000,000.

The banking institutions of New York State have about one-sixth of the nation's total banking resources. The trust companies of New York State alone have about twelve per cent. of the total of the country.

Of the savings bank deposits of \$4,319,000,000 in the United States forty-five per cent. are credited to the savings banks in New York State.

About \$22,000,000 are represented by the membership of the Land Bank of the State of New York.

Chambers of Commerce, boards of trade and similar commercial organizations, representing the business men of forty-five states, the District of Columbia, Alaska, Hawaii, Porto Rico and the Philippines, to the number of 311 have voted in the referendum managed by the Chamber of Commerce of the United States in favor of amending the Seamen's Law.

It is said that in the treasury and the sub-treasuries of the United States there are about \$1,000,000,000 in gold.

The resources of the savings banks in the State of New York on January 1, 1916, amounted to \$1,974,046,375, an increase of \$61,841,801 for the year 1915. The surplus of the institutions amounted to \$154,124,167, having increased \$14,419,839.

The number of New York State savings bank depositors is 3,243,362 with an average deposit of \$560.90.

NATIONAL BANK SECTION

OFFICERS OF THE NATIONAL BANK SECTION

PRESIDENT
FRED. W. HYDE, Cashier National Chautauqua County
Bank, Jamestown, N. Y.

VICE-PRESIDENT
J. S. CALFEE, Cashier Mechanics-American National Bank,
St. Louis, Mo.

CHAIRMAN EXECUTIVE COMMITTEE
J. ELWOOD COX, President Commercial National Bank,
High Point, N. C.

SECRETARY
JEROME THRALLS, 5 Nassau Street, New York.

CO-OPERATION AN ESSENTIAL FACTOR

Since its inception the banking system of this country has been the subject of criticism on the part of economists, professors and financial writers. During the past twenty-five years many of the best bankers and business men have joined hands with these critics and have concentrated their heaviest oratorical artillery upon the defects of the system. These forces, working through the daily papers, magazines, financial journals and under the convention spot-light, aroused the public mind to the conditions, and as a result we have the Federal Reserve Act, which is intended to cure the real ills and to make ours the greatest financial system in the world. This law was adopted under conditions which made it a compromise measure. It has some grave defects, but its underlying principles are without question sound. It is far-reaching in its scope, its influence permeates every line of business from coast to coast, and its ultimate success or failure rests, to a large degree, upon the shoulders of the banking fraternity.

The Federal reserve banks have been in operation about sixteen months. The plans under which they have been working are only tentative, and many of the functions provided for in the law have not been called into action. The system has not been given a real test, but the demonstrations to date justify the conclusion that some amendments are necessary. It was impossible to institute the system without permitting the influences of politics to creep in; but the Federal Reserve Board has made it plain that it proposes to eliminate all semblance of politics from the system. Those who have been in touch with the Board realize the big problems which are to be solved; and further realize that the members of the Board have worked earnestly and conscientiously from the very beginning, and with but one purpose in view, and that the success of the system. The Board has been open-minded; has sought and welcomed advice and assistance. Some of the directors of the Federal reserve banks were not familiar with the law at the time of their election or appointment. The same was true of the officers and employees of the Federal reserve banks and under these conditions it required many months to build up a working organization. There were many misgivings and misunderstandings both on the part of the bankers and general public as to what were the actual intents and purposes of the law. These are now generally understood to be:

First: To husband and protect the nation's gold supply.

Second: To provide the needed element of elasticity to the currency.

Third: To furnish a place where member banks may rediscount liquid, agricultural, commercial and industrial paper for the purpose of securing credit or currency with which to meet *unusual* demands.

Fourth: To perform certain functions of the clearing house.

Criticism of expense accounts, provision in the law for dividends and the sight of a great volume of apparently idle money in the vaults of the Federal reserve banks have driven some of the reserve bank officials to the belief that they must get these funds into action. As a result, some of the reserve banks have excess holdings of low rate bonds, while others have openly competed with their respective members for business, overlooking the fact that though apparently idle, these funds are rendering a most valuable service.

What would be the comment on the occasion of a big fire where many lives and millions of dollars were lost, because the chief of the fire department could not stand the strain of seeing his wagons idle and had placed them into public service as drays in order that he might earn a few dollars with which to help pay for the feed of the horses and the upkeep of the wagons?

By getting in close touch with the Federal reserve banks the respective members will be able to exercise a good influence, and will be a great help in putting the system into complete operation and along the right lines. Standing at a distance and commenting upon the disaster never stopped a great conflagration. Action is necessary to stop or control it. So it is with this new system.

A number of amendments to the Federal Reserve Act have been proposed and are in the hands of the Banking and Currency Committee, and many others may be offered later. Because of the vital effect the system will have upon general business, it is the duty of every banker, particularly those operating under Federal charters, to keep informed regarding these amendments.

The National Bank Section of the American Bankers Association was organized for the purpose of affording a channel through which questions of common interest to national banks might be discussed with a view of bringing about betterments in banking practices and in banking methods; and further, with a view of crystallizing sentiment and gathering data and information for use in encouraging constructive and corrective legislation. Through this Section the national banks will be

in a position to register their solid strength against undesirable measures, and to give their unanimous support in behalf of those measures which are for the good of the banks, and in turn for the good of the general business interests. Much can be accomplished through honest, friendly co-operation. Membership in this Section is free to all national banks that are members of the American Bankers Association, and every national bank should join. This Section can serve as agent of its members in taking up with the various departments of the Government matters which can be adjusted only by personal relation. Five thousand six hundred and thirty-four national banks are members of the American Bankers Association, of these 5,347 are enrolled as members of the National Bank Section. It is hoped that within the next sixty days the membership will be complete. If your bank has not enrolled this is the time to act.

SPRING MEETING

The next meeting of the Executive Committee of the National Bank Section will be held at Briarcliff, May 8-10, 1916.

PROPOSED AMENDMENTS

The following bills covering amendments to the Federal Reserve Act are now in the hands of the Committees on Banking and Currency:

H. R. 12998—Amending Section 19: To permit country banks after thirty-six months from the passage of the Federal Reserve Act to carry three per cent. of their legal reserves with national bank correspondents in reserve or central reserve cities, within a radius of 300 miles or within their own district.

H. R. 13387—Amending Section 14: To enlarge open market operations of Federal reserve banks.

H. R. 13389—Amending Section 13:

(a) To require every Federal reserve bank to accept on deposit checks and drafts on any solvent bank, whether national, state bank, trust company or banking association, member or non-member, domestic or foreign.

(b) To require Federal reserve banks to receive for collection maturing bills.

(c) To enlarge the scope of domestic acceptances.

(d) To permit Federal reserve banks to advance funds to their members on promissory notes for a period of not more than fifteen days, when same are secured by eligible paper.

H. R. 13390—Amending Section 24: To permit national banks to make loans on unincumbered improved real estate within a radius of 100 miles, and on the same basis as on unincumbered improved farm lands.

H. R. 13391—Adding Section 25a:

(a) To permit any national bank having capital and surplus of \$1,000,000 or more to invest ten per cent. of said capital and surplus in a corporation authorized by its charter to do a foreign banking business.

(b) To permit any national bank with capital and surplus of \$1,000,000 or more located in a city of over 100,000 inhabitants to establish a branch or branches within the corporate limits of said city.

The following bills have been introduced and may be of interest:

S. 4256, Calendar No. 265—Amending Section 5146, R. S. of U. S.: To provide that only a majority of the directors of a national bank located within five miles of the state line need be residents of the state, provided that one-fourth of the minority of the directors are residents of the adjoining state, and live within a radius of ten miles of the city wherein the bank is located. Further to provide that every director in a national bank shall own at least ten shares of stock.

S. 5105—Amending Section 5197, R. S. of U. S.: To limit rates of interest to be charged by national banks so as to conform to rates fixed by the laws of the several states, with the allowance of a service charge of \$1 on each transaction, and with the further privilege of charging exchange on obligations which are payable at distant points.

H. R. 13388—Amending Section 6 of an Act to fix a standard of value and to maintain parity of coin and money issued by the United States:

(a) To provide for issue of gold demand bearer certificates of denominations of not less than \$10, against deposits of United States gold coin.

(b) To permit the issue of order certificates of \$10,000 denominations.

(c) To permit the issuance to the Federal Reserve Board, the Federal reserve banks or the Federal reserve agents of the Federal reserve banks order gold certificates of the denominations of \$100,000.

(d) This amendment would also direct the Treasurer, or any Assistant Treasurer of the United States to accept deposits of gold in sums not less than \$20.

The issue of these demand certificates shall be made only when the reserve fund in the Treasury for redemption of United States notes, and Treasury notes exceeds \$100,000,000, and the Secretary of the Treasury would have the privilege to suspend the issuance of such certificates when the aggregate of United States notes and silver certificates in the general fund of the Treasury exceeded \$60,000,000.

S. 4432, Calendar No. 266—Amending the Clayton Anti-Trust law: To provide that any individual who is an officer, director, employee of any member bank or Class A director of a Federal reserve bank, may, with the consent of the Federal Reserve Board serve as officer, director or employee of two other banks, trust companies or banking associations, provided these institutions are not in substantial competition.

STATE SECRETARIES SECTION

OFFICERS OF THE STATE SECRETARIES SECTION

PRESIDENT
HAYNES MCFADDEN, Secretary Georgia Bankers Association, Atlanta, Ga.

FIRST VICE-PRESIDENT
S. B. RANKIN, Secretary Ohio Bankers Association, Columbus, Ohio.

SECOND VICE-PRESIDENT
FREDERICK H. COLBURN, Secretary California Bankers Association, San Francisco, Cal.

SECRETARY-TREASURER
GEORGE D. BARTLETT, Secretary Wisconsin Bankers Association, Milwaukee, Wis.

CONFERENCE OF BANKERS ASSOCIATIONS

The fifth annual conference of the officers of the State Bankers Associations of the Central Western States was held at the La Salle Hotel, Chicago, March 21 and 22. Two full days were given to a discussion of the topics which were prepared in advance and printed in the program. There was also a demonstration of how safes are burglarized by the use of the oxyacetylene torch. The state presidents and the state secretaries took part in the general discussion which was in every way beneficial to the officers present.

These meetings are of great benefit to the secretaries and evince a spirit of co-operation which cannot but be helpful to the various associations represented. At the conclusion of the two days' sessions, Andrew Smith, secretary of the Indiana Bankers Association, was elected chairman and W. F. Keyser, secretary of the Missouri Bankers Association, was elected secretary of the conference for the ensuing year.

The bankers and ladies present were entertained by Rand, McNally & Co., of Chicago, Mr. George K. Reed acting as host, at the Illinois Theatre on Tuesday, March 21, and saw Montgomery & Stone in "Chin Chin," and before the theatre were given a dinner at the Congress Hotel, tendered by the Chicago bankers. The following is a list of presidents and secretaries who attended, including the ladies:

Illinois Bankers Association: W. S. Rearick, Ashland, vice-president; R. L. Crampton, Chicago, secretary, Mrs. R. L. Crampton; Mrs. Olive E. Jennings, Chicago, assistant secretary.

Indiana Bankers Association: Frank J. Pitner, LaPorte, president; Andrew Smith, Indianapolis, secretary.

Iowa Bankers Association: H. T. Blackburn, Des Moines, president; P. W. Hall, Des Moines, secretary.

Kansas Bankers Association: W. W. Bowman, Topeka, secretary.

Michigan Bankers Association: Mrs. H. M. Brown, Detroit, secretary.

Minnesota Bankers Association: O. W. Lundsten, Hutchinson, president; G. H. Richards, Minneapolis, secretary.

Missouri Bankers Association: W. C. Gordon, Marshall, president; Mrs. W. C. Gordon; W. F. Keyser, Sedalia, secretary; Mrs. W. F. Keyser.

Nebraska Bankers Association: Jesse C. McNish, Wisner, ex-president; Thomas Murray, Dunbar, president; Wm. B. Hughes, Omaha, secretary.

North Dakota Bankers Association: J. E. Phelan, Bowman, president, and Mrs. Phelan; W. C. Macfadden, Fargo, secretary.

Ohio Bankers Association: O. N. Sams, Hillsboro, president; S. B. Rankin, Columbus, secretary.

Oklahoma Bankers Association: Harry E. Bagby, Oklahoma City, secretary.

Wisconsin Bankers Association: S. M. Smith, Janesville, president; Mrs. S. M. Smith; Geo. D. Bartlett, Milwaukee, secretary; Mrs. G. D. Bartlett.

American Bankers Association, New York: Fred. E. Farnsworth, General Secretary; Haynes McFadden, Atlanta, President State Secretaries Section; Geo. E. Allen, Educational Director American Institute of Banking; M. W. Harrison, Secretary Savings Bank Section.

Following is the list of topics presented for discussion:

Methods by which associations can promote among country banks the work of the American Institute of Banking.

Does activity for good roads benefit a bankers association?

Guarantee of deposits laws—provisions in various states—effect upon association work—has antagonism between state and national banks appeared?

A thrift campaign. Can a bankers association accomplish definite results and with what benefits to the association?

Present status of bankers mutual insurance and bond companies established by Wisconsin and North Dakota associations.

Secretary's Section meetings. Should the whole Section meet at this time each year? If so, should it meet as a whole or in groups?

Report on hotel reservations at Kansas City—for headquarters and for individual use.

Registration of commercial paper.

Federal Trade Commission—Can bankers associations assist the Commission? Methods.

Insurance agencies in national banks. Is it wise to endeavor to prevent them under the provisions of the Federal Reserve Law?

Are especial efforts made by any association to develop speakers inside the association's ranks?

What results are achieved by those associations that send out return postal cards to each bank before conventions asking who and how many will represent it?

Should there be politics in the election of officers of bankers associations or none at all? If not, how prevented?

Warning circulars about swindlers. Could a committee secure closer co-operation among all the associations?

Suggestions for securing new members.

Experience in dealing with unreasonable and contumacious members.

Co-operation with State Banking Department.

Past presidents.

NORTH CAROLINA CONVENTION

The sentiment of a majority of the members of the Executive Committee of the North Carolina Bankers Association being in favor of holding the twentieth annual convention inside their own state, the action taken at their January meeting to hold the convention at Old Point Comfort, Va., has been reconsidered and it will be held at the Battery Park Hotel, Asheville, June 14, 15 and 16.

DELAWARE PRESIDENT

Announcement has been made that Otho Nowland, president Equitable Guardian & Trust Company, Wilmington, formerly vice-president of the Delaware Bankers Association, has succeeded John B. Smith, cashier First National Bank, Milford, as president of that association.

NEW MONTANA SECRETARY

H. V. Alward, secretary of the Montana Bankers Association, has resigned that office to become vice-president and cashier of the Fidelity Trust Company, Tacoma, Wash. Edgar A. Newlon, cashier Great Falls National Bank, succeeds Mr. Alward as secretary-treasurer of the association.

CONVENTION CALENDAR

April	7-8	Florida	Daytona
April	14-15	Louisiana	Alexandria
April	25-26	Arkansas	Little Rock
April	27-29	Alabama	Pensacola, Fla.
May	2-4	Texas	Houston
May	8-10	Ex. Council, A. B. A.	Briarcliff Manor, N. Y.
May	11-12	Kansas	Salina
May	11-12	Reserve City Bankers	Detroit
May	12-13	New Jersey	Atlantic City
May	16-17	Oklahoma	Oklahoma City
May	18-19	Tennessee	Chattanooga
May	18-19	Pennsylvania	Philadelphia
May	18-20	California	Fresno
May	23-24	Mississippi	Laurel
May	23-24	Missouri	St. Louis
May	23-25	Maryland	Atlantic City, N. J.
May	25-27	Georgia	Macon
June	8-9	Oregon	Portland
June	6-7	New York	Atlantic City, N. J.
June	12-13	Idaho	Lewiston
June	14-16	North Carolina	Asheville
June	15-16	North Dakota	Minot
June	15-17	Washington	Everett
June	16-17	Massachusetts	Swampscott
June	16-17	New Eng. Bankers Assn.	Swampscott, Mass.
June	17	Maine	Swampscott, Mass.
June	17	Rhode Island	Swampscott, Mass.
June	19-21	South Carolina	Kanuga Lake, N. C.
June	20-21	Iowa	Waterloo
June	22-23	Minnesota	Minneapolis
June	22-24	Virginia	Old Point Comfort
June	28-29	South Dakota	Sioux Falls
Aug.	8-9	Wisconsin	Madison
Aug.	25-26	Montana	Miles City
Sept.	12-14	Ohio	Columbus
Sept.	20-22	Am. Inst. of Banking	Cincinnati
Sept.	25-30	Amer. Bankers Assn.	Kansas City, Mo.
Oct.	3-5	Investment	Cincinnati, Ohio
Oct.	10-11	Kentucky	Paducah
Nov.	10-11	Arizona	Phoenix
		Utah	Ogden
		West Virginia	Wheeling
		Farm Mort. Bankers Assn.	Memphis, Tenn.

POSTAL SAVINGS MAXIMUM INCREASED

On March 15 the Senate passed the bill increasing the maximum amount which one person may deposit in a postal savings bank from \$500 to \$2,000. The bill provides for the payment of interest on the first \$1,000, but no interest will be paid on the additional \$1,000, which may be deposited. This was passed by the House Jan. 6.

Amendments by the Senate to this bill (H. R. 562), which is now in conference, provide that:

Postal savings funds received under the provisions of this Act shall be deposited in solvent banks, members or not, of the Federal reserve system, at two and one-half per cent. interest. But five per cent. of such funds shall be withdrawn by the board of trustees and kept with the Treasurer of the United States, who shall be treasurer of the board of trustees, in lawful money as a reserve, member banks being given preference.

LIBRARY DEPARTMENT

MARIAN R. GLENN, LIBRARIAN

TRADE ACCEPTANCES

Recent discussion regarding trade acceptances has led many bankers to assume that they are a new feature of American banking. But, as Prof. Joseph French Johnson has pointed out:

"Before the Civil War a large part of the wholesale business in the United States was financed through drafts drawn upon the purchaser by the seller. These drafts were payable in thirty to 120 days, or even longer, according to the requirements of the case. They were presented to the drawee, who 'accepted' them, if they were in order, and thereupon returned them to the original drawer. This paper was termed an acceptance and gained high standing in the market. In the drawer's hand it was essentially a promissory note which could be held to maturity or sold, if need be, with the drawee's credit as well as the drawer's behind it. The acceptance was excellent collateral at the bank.

How Open Account System Arose

"But at the end of the war our credit system was demoralized and everyone tried to sell his goods for cash. It was out of this situation that the 'cash discount' custom arose. As an inducement to cash payment, discounts were offered on all invoices. These discounts were made so attractive that it was to the buyer's interest to borrow the cash, if necessary, to take advantage of them. In fact, the cash discount offered was usually so large that the failure to take advantage of it reflected distinct discredit upon the buyer, as it plainly indicated either very poor business judgment or absolute inability to obtain credit at home.

"This custom found favor with our business world and has been handed down to us. It has the advantage that it relieves the seller from carrying an account. On the other hand, it has some serious disadvantages. The custom has practically done away with the draft or even the promissory note in ordinary commercial transactions. In fact, to draw a draft or to demand a note is now often considered little less than an insult. Few buyers pay on shipment of goods. Hence when cash is not paid the seller has no acknowledgment of the debt on which he can borrow and is therefore forced to use his own credit if he wants a loan. True, he can assign his accounts, but in most lines of business this is considered a sign of weakness. The seller is often compelled to carry the debt upon his books as an account receivable until it is paid. As such, it too frequently constitutes a non-liquid asset."

Writing in the *Economic World* of August 28, 1915, W. F. McCaleb gives a concrete example of the disadvantages of the open account system:

How the Open Account Works

"In order to make clear just how the open account works or fails to work, let us attempt to illustrate by following an ordinary, every-day business transaction from its inception to its ending. A manufacturer, falling upon what he considers a bargain, overbuys raw material and presently is urging the jobber who handles his manufactured products to buy beyond his ability, or is consigning wares to him to be paid for when sold. The jobber with the goods on his hands and his salesmen in the field, seeing the opportunity, proceeds to unload—frequently at inflated prices—on the retail merchant, giving him an open billing, running from sixty days to six months. The merchant, in turn, farms out the product to his customers at an exorbitant price, depending on making enough collections to liquidate the debt. He takes his chance for a profit on the remainder; and then, having sold carelessly, he very often reaps nothing, or actually loses, after all.

"About this time the tide turns; the individual is called upon unavailingly by the merchant; the merchant is called upon by the jobber; the jobber is gently reminded of his maturing obligations by the manufacturer. Then the tale of hard times starts at the bottom and makes its way upwards. The individual begs of the merchant an extension, holding out the promise that some day, if crops or profits are satisfactory, the debt will be paid. The merchant next complains to the jobber of poor collections. The jobber, in turn, writes to the manufacturer saying that conditions have been very unfavorable, and craves an extension; the manufacturer duly goes to his banker with the tale that his collections have been slow, that jobbers over the country are complaining about the war, the weather, or what not. The banker, having counted on liquidations, finds his reserves running low, and is compelled to rediscount or to call legitimate paper or to refuse making loans to worthy and deserving clients—all of which tends to further disorganization. All along the line the reflex action from these transactions is bad for the community, whether one considers the clients of the merchant or the clients of the banker. Each individual interest has its own ramified relationships, and these, in turn, have theirs; so that tugging at one corner of the fabric throws the whole of it askew."

Advantages of Two Name Commercial Paper

The advantages of trade acceptances over the open account method were recently outlined by Beverley D. Harris in an address before the National Credit Men's Association in Chicago:

"Under our open account system the merchant is compelled to conduct the operations of his business in-

volving carrying the accounts of his customers to an unreasonable extent. He is compelled to do this usually solely on his own credit and through the medium of his single name paper discounted with his bankers or sold through brokers in the open market. Owing to lack of accurate knowledge or visible means of knowing the character of credits extended by him—and to the inconvertibility of the latter—it has come to be quite a settled principle that, in order to have a satisfactory credit footing, his statements should show a large margin of safety in quick assets of this character over liabilities—usually in the proportion of two for one, or more. No matter how sound his credits, he must preserve this proportion to float his single name paper successfully, whereas, were these credits converted into liquid double name paper through the medium of acceptances or notes, if all conditions were sound, they would be immediately available and all this large degree of lost motion eliminated.

"If they were unsound or of inferior quality, it would become manifest, with the result of properly curtailing his credit accordingly. For that reason merchants would be more careful in extending credits to customers, there would be less loss and fewer failures; it would, to a large extent, correct an evil which has come frequently under my observation, viz., that in active competition of business many wholesalers and jobbers extend unreasonable lines of credit to a certain class of small retail merchants, particularly in small country towns, who operate principally on the credit extended them by rival firms, and with little or no visible capital of their own. This means slow collections and bad debts, and this class of customers invariably assign short crops, poor collections, the European war or any other conceivable excuse, which may seem most plausible, for their inability to pay, and have to be carried over.

"It would strongly curb the pernicious practice of over-selling and over-buying. Buyers, knowing that their obligations would be discounted and their credit put to the test, would be more alive to the necessity of meeting their obligations; would be more prudent in selling on credit; more careful in taking on no larger lines of merchandise than they could sell; more certain of their collections, and therefore more able to pay their debts. Hence the curse of over-expansion, and the growing mass of credits which do not liquidate at times and seasons when they should liquidate, would receive a salutary check. The strain on the merchants and bankers would be diminished, and the credits of the entire country placed on a safer and sounder footing. Through the medium of the acceptance the correctness of the account would be immediately established, at the same time many of the troubles growing out of return of goods before maturity date, counter-claims, set-offs, etc., would be eliminated, and the expense and difficulty of proving up claims in case of suit would be simplified since at present the burden of proof rests entirely on the seller.

"Not only would collections be vastly improved, but the expense of collection and carrying on business

greatly reduced. The amount of capital required proportionate to volume of business would be lessened in the proportion that trade credits could be made available for the payment of debts. The country's credits would be automatically cleared, off-setting each other, reducing the strain on merchants and banks in times of crop movements and expanding business, and carrying on commerce and industry with a minimum of cash, credit and gold reserves. Could you imagine, for example, the enormous amount of cash that would be required to make the country's daily settlements if checks were not cleared against each other through the medium of the country's clearing houses? In theory the same principle applies here."

Effect on Buyers and Sellers

The advantage of trade acceptance to buyers and sellers has also been pointed out by the National Credit Men's Association in a pamphlet on "The Trade Acceptance versus the Open Account."

"The trade acceptance converts the sale and delivery of merchandise into a liquid credit, promptly and economically available for the financial needs of the seller. Its advantages should give the trade acceptance immediate adoption, causing it rapidly to replace the open account.

"Its chief advantages to the sellers are:

"A closer relationship with buyers.

"Better financing abilities through possession of an available, liquid credit.

"A smaller operating cost—therefore ability to sell at lower prices.

"A reduction in bad debt losses.

"Relief from unfairly taken discounts.

"Equally important are its advantages to the buyer, which are chiefly:

"A stronger sense of responsibility toward obligations.

"A safeguard against over-buying, without decreasing the buying powers.

"Ability to buy at lower prices and thus be better prepared to compete and succeed.

"More system in financial arrangements.

"A broader place in the business world."

In order to stimulate the use of trade acceptances the Federal Reserve Board has issued a circular clearly defining them, with regulations granting a rate of discount one-half of one per cent. lower than the regular discount rate to member banks.

As yet, national banks are excluded from the privilege, enjoyed by state banks and trust companies, in some states, of accepting paper which arises from domestic transactions. The success of the preferential rate on trade acceptances has led to a revival of earlier arguments for the creation of bankers' acceptances arising from domestic transactions, and the following is quoted from an address by Herbert R. Eldridge:

Domestic Acceptances

"There are many arguments in favor of the domestic acceptance. Primarily, and, to some minds most im-

portant of all, the possibility of undue expansion on the part of the drawers of bills would be eliminated. The market would be supplied with a plentiful number of bills of the highest order which would attract as purchasers, not only the banks and investors of our own country, but, in times of peace, foreign banks and investors as well. The eligibility of such bills for rediscount with Federal reserve banks (and undoubtedly for sale to those banks in open market transactions), would give them additional value. Indeed, they would form the most attractive class of investment we could have, as they would be immediately convertible into cash or bank credits whenever desired. They would form ideal secondary reserves for banks. Our discount markets would unquestionably absorb all the high grade bills offered at any time, and competition would permit them to sell at figures that would prove a revelation to the public.

"It has been contended that, to give the acceptance privilege to all member banks of the Federal reserve system without discrimination as to size, would encourage the flotation of numerous ill-advised instruments of this character. Many feel that the acceptance privilege should be accorded only to banks situated in the larger cities which naturally are more accustomed to business in its various ramifications than those institutions of small capital operating in small places. To a certain extent this contention is well grounded. But it does not appear that Congress cares to place itself in the attitude of allowing privileges to one bank without allowing equal privileges to another, and therefore it has been thought best to deny the privilege to all rather than to make what may be called discrimination. This argument is not well sustained. It is not probable that small banks would place any value upon the acceptance privilege, but were such banks, at the discretion of the Federal Reserve Board, granted the privilege but were required to carry a trifle larger reserve for this reason it would soon develop what banks were anxious to have the privilege and it could be left to the wisdom of the Federal Reserve Board to say to which it should go."

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ADDITIONS TO THE LIBRARY

Mr. William A. Law, ex-President of the American Bankers Association, has presented to the library a two-volume history of the interesting career of "Jay Cooke, Financier of the Civil War," written by E. P. Oberholtzer.

"The Authentic History of the United States Steel Corporation," by Arundel Cotty, is a recent gift of Mr. A. W. Ferrin, editor of *Moody's Magazine*.

PACKAGE LIBRARIES

Package libraries on various subjects were sent to Association members in twenty-six states last month, in addition to the material loaned and questions answered at the Library.

This "mail-order" feature of the Library makes it as useful to the banker "out West," or "down South," as it is to the Association members in New York, and requests for package libraries are steadily increasing.

INTEREST PAYMENTS IN MARCH

Interest and dividend disbursements during the month of March were \$141,127,504, according to the *Journal of Commerce*. This compares with \$117,981,135 a year ago. Of the grand total, \$74,227,504 represents dividends, an increase of \$18,346,368. A large part of this increase is accounted for by the resumption of the

quarterly payment on United States Steel common, which calls for \$6,353,781. Interest payments in March approximated \$66,900,000, against \$62,100,000 in the same month a year ago. According to the *Journal of Commerce*, this increase is explained by new bond and note issues.

BULLETIN

OF THE

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FORUM OF THE INSTITUTE

SAVINGS BANKS IN GERMANY

In response to a set of interrogatories which were sent to Consul-General Lay in Berlin, Germany, Mr. Lay made the following report, and also gave some interesting stories of German thrift:

"A German banker with whom I spoke upon this subject informed me that the best 'story of German thrift' that he could think of was the indisputable fact that approximately one out of every three persons in Germany has a savings account. Fathers often place money to the credit of their minor sons in times of opulence, which comes in very handy in case of financial reverses, or when a war breaks out, such as that existing at present. One German father told me that the money which he gave his son in the form of presents at Christmas time and other holidays was sufficient to pay the boy's expenses at the medical school during the first year and a half of the war. In this particular case the father was a musician, who found himself almost without means when the war began and would have been forced to discontinue his son's education if the savings account had not saved the situation."

THE GERMAN SAVINGS BANK SYSTEM.—Although efforts have been made to unite the savings bank systems of the various German states into one cohesive whole and a German savings bank union was founded in the year 1881, all of these efforts have not succeeded in forming a central board or bank which directs saving affairs for the Empire. The German savings banks, therefore, must be studied by states, such as the systems of Prussia, Saxony, Wurttemberg, Baden, etc. In general the laws relative to these banks are not of a national character, but are the local regulations of the individual duchies and kingdoms. The Prussian system

can be taken as fairly exemplary of the systems of the other German states.

LEGISLATION DEALING WITH SAVINGS BANKS IN PRUSSIA.—Modern developments in banking and commerce have caused many additions to be made to the old Prussian regulations, yet the present system is largely built upon the regulations concerning "the establishment of the savings bank system" of December 12, 1838. This law covers most of the general principles necessary for establishing, organizing, supervising and conducting the business of the public savings banks. The banks formed by communal organizations are not covered by this law, but have been restricted and controlled by various new statutes. Regulations formulated by city authorities apply only to city savings banks and are only of subsidiary importance. Special regulations of a more recent date have been made to apply to the Hohenzollern lands and Hesse-Nassau.

ORIGIN OF GERMAN SAVINGS BANKS.—The German savings banks may be regarded as having their origin in the projects for assisting the poor, which were presented during the second half of the eighteenth century in Northern Germany. The first institution of this kind was the loan bank established for the Duchy of Brunswick in 1765. In 1778 a bank was established in Hamburg, which may be regarded as being the first German institution designated as a "*Sparkasse*," or savings bank. The savings features of this bank were organized to assist messengers, day laborers, hand workers, seamen, etc. Hamburg's example, which was soon followed in other European countries, was greatly enlarged in 1815, when it became the guaranteed institution for the entire city. Other cities introduced similar institutions and

the savings bank idea was taken up by churches, communities and commercial associations.

ORGANIZATION AND SUPERVISION OF SAVINGS BANKS IN PRUSSIA.—As stated before, the Prussian law of December 12, 1838, contains the principles, according to which savings banks are organized and supervised in Prussia. (A translation of this law is transmitted as an enclosure with this report.) The entire law with the exception of section 19, which deals with supervision, treats with establishing, organizing and administering the savings banks. The law is necessarily abbreviated and has been largely augmented by interpretations and court decisions. (On pages 48 to 209 of a book entitled "The Prussian Savings Bank System," Hugo von Knebel-Düberitz of the Department of the Interior sets forth the present construction applicable to the law of 1838, in the form of commentaries.) Each individual city or community in which a savings bank has been established has added its own regulations to those prescribed by law and decision, so that an assorted volume of minor differences can be noted in regard to the local administration of the individual banks.

The following are several features of the law worthy of notice. The responsibility of the city or community to whom the permission is granted to establish a savings bank is not small at all times, and in case of difficulty the security of depositors is safeguarded by the local budget. The *oberpraesident*, or the duly authorized representative of the central government (Prussian), is the court of high decision for most local matters. In cases of vital importance the decision of the minister of the interior is required. The provisions against loss are remarkably thorough for a law organized so long ago. It is true that indiscretions on the part of municipal authorities and the representative of the government could result in financial difficulties to the bank, but as a whole the relations among the administrative authorities of the bank are so checked that there is little likelihood of loss by the poor depositors. No provisions are made for "bank examiners" (in the American sense), but the responsibility placed upon the state and community in which a bank is established is so large that careful revisions of the bank records would necessarily take place from time to time. The most remarkable fact about the whole law is that it still satisfies most of the needs for savings banks on the part of the poor. (Reform projects are discussed at the close of this report.)

Section 19 of the law of 1838 provides that the supervision of savings banks shall be conducted by the district representative of the central government (*oberpraesident*) and the community authorities. These must carefully look over the books of the savings bank, convince themselves that the business is being conducted in the proper way, make investigations if necessary, audit the cash and remedy disorder and misuse.

State supervision of Prussian savings banks was first introduced by the regulations of 1838. Before this time state officers had been required to take notice of the establishment of banks, but later they did not

trouble themselves with the orderly management or supervision of the banks. The supervision accorded by the law of 1838 subjected the entire business of the bank to state control. The supervisory authorities were required to earnestly combat the misuse of funds and internal disorder. The authorities are also authorized, in case of necessity, to begin bankruptcy proceedings as provided by law. By recent orders inspections are authorized in certain cases, and the exact manner in which assets are to be reported and revised are more minutely described. Yet by far the larger share of the responsibility for supervision rests upon the local officers, whose duty it is to judge the seriousness of a particular situation. Local systems of supervision may be classified largely according to their kind. Communal banks are subject to the supervision of a community as prescribed by law. In general, every governmental authority which guarantees a savings bank is responsible for the supervision of the bank thus established. Banks under the supervision of authorities for country districts are held to be the special responsibility of the *landrat* (privy councillor) in the first instance, but finally the *oberpraesident* or the provincial representative of the central government is responsible for them. The supervision of city savings banks is vested in the first instance in the government's representatives (*regierungspraesident*), but in the last instance the responsibility is placed in the provincial governor (*oberpraesident*). For the city of Berlin the provincial governor (*oberpraesident*) is charged with the original supervision, but he in turn is responsible to the minister of the interior in the last instance. The general supervision of all savings banks is vested in the Ministry of the Interior. When the law of 1838 was framed the authors only had in mind the applications of municipalities for savings banks. Later, in order to include other territorial divisions, bodies and societies, a broader interpretation of the law was necessary. Private organizations, such as unions and associations, do not come within the purview of the law, but banks established by such organizations are especially regulated.

THE AMOUNT AND NUMBER OF DEPOSITS IN GERMAN SAVINGS BANKS.—According to the last available statistics for savings banks in Germany, there were at the close of 1913, 22,020,149 savings accounts in the Empire, over half of which (13,752,702) were in Prussia alone. According to the population statistics of December 1, 1910, Germany was credited with 64,925,993 people; therefore, figuring upon this basis, and unless several savings accounts were held by a single individual, there is approximately one account to every three persons in all Germany, whether they be men, women or children. According to the same figures for the year 1913 Germany was credited with having 2,917 principal savings banks and 8,108 branches. The total value of property which the savings banks had (1913) belonging to depositors was valued at 18,305,811,000 marks (\$4,356,783,018). All property of the banks, including buildings, deposits, etc., but excluding the reserve fund,

was valued at 18,444,460,000 marks (\$4,389,781,480). The reserve funds for the same year (1913) were stated as amounting to 886,390,000 marks (\$210,960,820).

LISTING STOCKS AND BONDS

In response to an inquiry from Minnesota regarding the listing of stocks and bonds, the following provisions are quoted from the rules of the New York Stock Exchange:

Stock—Every application for an original listing of capital stock shall recite:

A Title of corporation.

B (1) Date of organization; (2) name of state authorizing incorporation.

C (1) Duration of charter; (2) and of charters of constituent, subsidiary, owned, or controlled companies.

D (1) History of corporation; (2) if a consolidation, merger, or reorganization, history of predecessor, and constituent, subsidiary, owned or controlled companies, or firms, showing (a) names, location and stock issues; (b) conditions leading to new organization.

E (1) Charter rights; (2) nature of business, character and amount of annual output, number of employees; (3) special rights or privileges granted directors by charter or by-laws.

F (1) Whether capital stock is full paid; (2) non-assessable; and (3) if personal liability attaches to shareholders.

G (1) Issues, dividend rate and par value; (2) total amount of each, authorized and issued; (3) increases and authority therefor, including (a) action by stockholders, (b) by directors and (c) by public authorities, etc.; (4) amount unissued, (a) options or contracts on same, (b) specific reservation for conversion.

H If preferred stock; (1) whether cumulative or non-cumulative; (2) preferences, including (a) voting power; (b) dividends; (c) distribution of assets on dissolution or merger; (d) redemption.

I Voting power of obligations of debt.

J (1) Dividends heretofore paid; (2) by predecessor, or constituent, subsidiary, owned, or controlled companies; (3) earnings for preceding five years, if available.

K Description of property (1) owned in fee; (2) controlled; (3) leases; (4) franchises; (5) location, nature, and acreage; (6) railroads, mileage completed, operated and contemplated, and trackage rights; (7) traffic agreements; (8) equipment; (9) character of buildings and construction; (10) timber, fuel or mining lands, water rights (see paragraphs *T* to *Z*, below).

L (1) Purpose of issue; (2) application of proceeds; (3) amount of issue for securities, contracts, property, description and disposition of securities acquired; additional property acquired or to be acquired, with particulars, as required by paragraph *K*.

M (1) Mortgage, and (2) other indebtedness, (a) date of issue, (b) maturity, (c) interest rate, (d) redemption by sinking fund or otherwise; (3) similar information regarding mortgage and all indebtedness

of constituent, subsidiary, owned, or controlled companies.

N Other liabilities joint and several, (1) guaranties, (2) leases, (3) traffic agreements, (4) trackage agreements, (5) rentals, (6) car trusts, etc., (7) terms of each, and provision for payment.

O Fiscal year.

P Financial statements; (1) income account of recent date for at least one year; (2) balance sheet of same date; (3) similar figures for predecessor, constituent, subsidiary, owned, or controlled companies; (4) final balance sheet; (5) when reports published; (6) for corporations consolidated within a year, income account and balance sheet of all companies merged and balance sheet of applying corporation.

Q Names of (1) officers; (2) directors (classified), with residence; (3) transfer agents, and (4) registrars, with addresses.

R Location of principal and other offices of corporation.

S Place and date of annual meeting.

In addition to the above, corporations which are owners of mines must recite:

T Patented and unpatented claims, by numbers.

U (1) A geological description of the country; (2) location and description of mineral and other lands; (3) ore bodies; (4) average value; (5) character of ore; and (6) proper methods of treatment.

V History of prior workings, showing (1) results obtained; (2) production each year.

W (1) Ore reserves compared with previous years; (2) estimate of engineer as to probable life of mines; (3) probabilities by further exploration.

X (1) Provisions for smelting and concentration; (2) cost of (a) mining, (b) milling and smelting (c) transportation; and (3) proximity of property to railway or other common carrier.

Y Income account, (1) receipts; (2) expenditures; (3) disposition of income.

Z Properties in process of development; if income account not available, what guaranties for working capital and for completion of development.

BONDS—An application for an original listing of bonds shall recite all information required for listing capital stock, and

A (1) Amount, denominations and numbers; (2) full title; (3) amount authorized and outstanding, authority therefor, including (a) action by stockholders, (b) directors, and (c) public authorities, etc.; (4) whether bonds are coupon (registerable as to principal) or registered, interchangeable or exchangeable,* (5) exchangeability or convertibility into other securities, and terms.

B (1) Date of issue and maturity; (2) interest rate; (3) places at, and dates for payment of interest and principal; (4) where registerable or transferable; (5) kind and standard of money, and options; (6) tax exemption; (7) whether redeemable or purchasable in whole or in part, showing (a) dates, (b) price, (c) duration of published notice, (d) disposition of redeemed or purchased bonds.

C Mortgage or indenture provisions for (1) serial issues; (2) values in United States gold coin, issuance in foreign languages and that the English version governs; (3) terms of exchangeability of bonds payable in foreign places for bonds payable in United States.

D (1) Security—Mortgage, indenture of trust, or other agreement; and, (2) liens; (a) properties covered, (b) mileage of railway lines, (c) buildings, (d) equipment, (e) securities, (f) rights, (g) privileges, (h) titles, (i) franchises, (j) leases, etc.; (3) other liens covering same or any part of same properties; (4) guaranty and terms.

E (1) Names and addresses of trustees, and any unusual additions to or limitations of powers; (2) provision for declaration of principal due and payable in event of default of interest or other default and waiver; (3) percentage of outstanding bonds controlling trustee.

F Purpose of issue and application of proceeds, similar to that called for by Paragraph *L* of the Requirements for Listing Stock.

G Disposition of bonds refunded and mortgage securing same.

LEGAL TENDER

An Oklahoma correspondent is advised that strictly legal tender money of the United States consists of gold coin, standard silver dollars, subsidiary silver to the amount of \$10, minor coins to the amount of 25 cents, and United States notes and demand treasury notes. Neither gold certificates nor silver certificates, national bank bills nor Federal reserve notes are legal tender.

Under the Act of June 30, 1864, national bank notes "shall be received at par in all parts of the United States in payment of taxes, excises, public lands and all other dues to the United States except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States, except interest on the public debt and in redemption of the national currency."

By Act of February 21, 1857, "no foreign gold or silver coins shall be a legal tender in payment of debts."

The Act of February 12, 1873, says: "The gold coins of the United States shall be a legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided by law for the single piece, and when reduced in weight below such standard and tolerance, shall be a legal tender at valuation in proportion to their actual weight."

The Act of February 28, 1878, says: "That there shall be coined at the Federal mints of the United States silver dollars of the weight of $412\frac{1}{2}$ grains Troy of standard silver; which coins, together with all silver dollars heretofore coined by the United States of like weight and fineness, shall be a legal tender, at their nominal value, for all debts and dues, public and private, except where otherwise expressly stipulated in the contract."

The Act of June 9, 1879, says: "That the present silver coins of the United States of smaller denominations than \$1 shall hereafter be a legal tender in all sums not exceeding \$10 in full payment of all dues public and private."

The Act of February 12, 1873, says: "The minor coins of the United States shall be a legal tender at their nominal value, for any amount not exceeding 25 cents in any one payment."

The Act of February 25, 1862, and of July 11, 1862, says: "United States notes shall be lawful money, and a legal tender in payment of all debts, public and private, within the United States, except for duties on imports and interest on the public debt."

The Act of July 17, 1861, and re-enacted later says: "Demand treasury notes authorized by the Act of July 17, 1861, chapter five, and the Act of February 12, 1862, chapter twenty, shall be lawful money and a legal tender in like manner as United States notes."

The Act of March 3, 1863, and June 30, 1864, says: "Treasury notes issued under the authority of the Acts of March 3, 1863, chapter 73, and June 30, 1864, chapter 172, shall be legal tender to the same extent as United States notes, for their face value, excluding interest: Provided, that treasury notes issued under the Act last named shall not be a legal tender in payment or redemption of any notes issued by any bank, banking association, or banker, calculated and intended to circulated as money."

The Federal Reserve Act does not make Federal reserve notes a legal tender.

MONOMETALLISM AND BIMETALLISM

A Minnesota student asks the Forum to explain the alleged advantages of monometallism and bimetalism. The controversies in connection with these questions are presumably settled, and their discussion is therefore academic rather than utilitarian. Nations have sought from olden days to keep a bimetallic standard with the result that for centuries there were alternating standards with differing mint and commercial ratios and consequent confusion. England adopted the gold standard in 1816, while the Continent was on a silver basis to the mid-Nineteenth Century, when gold began to replace silver. For this reason the Latin Union was formed and continued until 1873, when, through an increase of silver production and opposition of the gold standard in England, Scandinavia, and Germany, silver fell, and in 1878 the silver standard was practically abolished. Today the leading countries of the world have gold monometallism.

The arguments favoring gold monometallism are that: (1) The world has tried various standards and has found the monometallic gold standard most economical, stable and satisfactory. (2) Experience has shown that there cannot be two measures of value as there cannot be two yard sticks of varying lengths. (3) Experience has convinced the world that the double standard can never be maintained; indeed, it has been

shown that it never existed for any length of time, but that its very adoption caused an alternating standard. (4) Mint ratios and commercial ratios cannot be kept at a parity by government fiat. (5) Gold is more stable in value; it represents a larger value in smaller bulk; its chemical and physical properties are far superior to those of any other metal. The arguments against gold monometallism are: (1) That it is possible for the supply of gold to be so controlled as to make for the further enrichment of the rich and the further impoverishment of the poor. (2) That there is not sufficient gold to meet the requirements of nations for such a standard. (3) That as population and production increase, demand for gold will increase and supply not being able to keep pace with such demand, gold will increase in value with the consequent decrease in prices.

Those favoring bimetalism, the admission of two metals to free coinage at a fixed ratio, and both legal tender, say that the mint ratio will be maintained because if one metal tends to go below that ratio the whole money demand will fall upon the supply of that metal and cause it to go back to the ratio, while the other metal, which at the same time has gone above the ratio, will decline to it, and equilibrium will be maintained. Bimetallists further hold that a double standard would keep prices more stable, because a change in the demand for money would fall less heavily upon two metals than upon one; that there would exist a par of exchange between all nations, with a consequent added facility in exchange, to the betterment and increase of business; that the supply of the two metals would be sufficient to keep pace with the increasing money demands of increasing population and production; and that such supply has never been greater than the demand for it. Without discussing these arguments, attention is called to the fact that the arguments for a bimetallic standard are arguments for international bimetalism, and not for a double standard to be maintained by a single nation.

THEORY AND PRACTICE

In teaching the subject of banking there is everlasting controversy between those who want or think they want theory and those who want or think they want practice. Prof. Edwin W. Kemmerer of Princeton University, who is a member of the Board of Regents of the American Institute of Banking, says that the teacher of money and banking finds himself continually drawn in two opposite directions. In the first place there is a group of alumni, and other interested persons, who are opposed to making such a course in any degree vocational or "practical," and who believe that

the period of undergraduate study is not a proper time in the student's career for so-called practical courses, and that that work should be left to graduate schools of business administration. They emphasize the importance of mental discipline and of culture and often appear to believe that in so far as a course is made practical it loses its value as a mental discipline and as a cultural study. To them the term "practical" is the offspring of two parents, "the superficial" and "the mercenary." Unfortunately experience has shown that there is an element of truth in this contention. In more than one college which prides itself on being "very practical" economic courses have become crazy quilts of highly colored economic facts. Such courses afford no mental training except in mnemonics and have little value as a preparation for a business career.

There is a strong pressure, however, to make the course in money and banking practical in the narrower sense of that much abused word. Some would have the course give the kind of information that is needed by a man who is about to enter the banking business as a clerk. They would place the emphasis on the work of the bank bookkeeper, teller, or discount clerk, to the necessary neglect of the broad principles of banking. There is an analogous situation in our engineering colleges in the strong pressure brought by students and others to increase the amount of shop work and field work at the expense of the work in mathematics and mechanics.

In teaching money and banking at Princeton the aim has been to avoid either of these extremes. "We place our emphasis upon principles," says Professor Kemmerer, "but try to show continually how these principles are exemplified and work out in present-day practice." For example, we devote considerable attention to the best banking practices of European countries, but in each case we try to apply the lessons of that foreign experience to American conditions. Each student is required to write two essays on monetary and banking topics during the term, and these topics are for the most part a combination of the practical and the theoretical."

During the past year the work in money and banking and finance at Princeton has met a great stimulus through the installation of the Pliny Fisk Library, the gift of Mr. Pliny Fisk of the Class of '81. This library, which has been in process of building up for a period of about thirty years, and contains over 5,000 books on finance, 13,000 pamphlets, 39,000 bond and stock circulars, and some 70,000 selected newspaper clippings, is said to be the best practical finance library to be found in any college in America.



Foreign Banking Course of Study

LESSON 2

American Bankers and Foreign Trade

Conditions After the European War—Two Evils to be Met—Expansion of International Trade—Adaptation of Selling Methods to Foreign Customs—Combinations and Legislation—What Bankers Can Do.

By JOHN E. ROVENSKY

Vice-President of the National Bank of Commerce in New York

THE increase in our foreign trade since the outbreak of war has been tremendous. In order that we may correctly appraise the permanent value of this increase, we must divide it into two parts—(1) war supplies and (2) regular trade. The first item has played a spectacular part in our foreign trade of the past year. The beneficial effects of "war orders" on our economic position probably outweigh the evil effects. Aside from the immediate profits gained from such exports, the constructive value of "war orders" consists of their strengthening our international economic position. Through the sale of war supplies to the belligerent nations we have paid off a large part of our foreign indebtedness, and as the war will probably continue for some time, the outlook seems to favor our becoming, if we have not already become, a creditor nation.

After the War

I consider this very important, as the strengthening of our international economic condition is absolutely essential for the protection of our gold reserve after the conclusion of the war. At that time, when the resumption of commercial activities throughout Europe and high interest rates on foreign government loans will both tend to draw gold away from us, a reduced foreign debt will do much to prevent a drain on our stock of gold. The evil effects of the war supply business consist largely of the derangement of wage levels, diversion of liquid capital into fixed assets and the raised level of costs of production. However, if the high prices obtained by the manufacturers of war supplies do not induce an abnormal wage level, and if the conversion of liquid capital into fixed assets does not proceed beyond the danger line, the net result of the war supply business may be of permanent benefit to the country. The high prices at which manufacturers of war supplies are able to readily sell their products tempt them, however, to divert their liquid assets into permanent investments in the form of additions to plant, special machinery, etc., and labor, viewing with an envious eye the sudden increase in the profits of the employer, is tempted to demand exorbitant wages.

Two Evils to be Met

The first of these evils is more easily avoided than the second. The manufacturers of this country have been repeatedly warned to not now render themselves less fitted for normal trade by tying up their liquid capital, and they realize that this would greatly handicap them in the struggle for trade that will surely follow the conclusion of peace. Labor unfortunately is apt to follow the advice of demagogues, who, lacking foresight, urge their followers onward in their demands for increased wages and will probably advise them to demand that these abnormal wages be continued when normal business has been resumed and only normal profits can be obtained. Such a wage level would result in prices here ranging higher than in any other country and we would thus be the best country in which to sell and the worst country from which to buy. The effect of such condition on our foreign trade can well be imagined and the establishing of a war level of wages should therefore be avoided.

Expansion of Foreign Trade

Apart from the war supply business, our regular foreign trade has also increased at an unprecedented rate. The productive forces of the belligerent nations being diverted to the greatest extent possible by their respective governments to the manufacture of war supplies, the world has naturally turned for its supplies to the greatest industrial nation not involved in war—the United States of America. Central and South America being our nearest neighbors and being at peace, received our first attention after the outbreak of war. As we became adjusted to war conditions, we found that there was also an excellent market for our products in other parts of the world—in fact, not only in the neutral countries, but also in those actively engaged in war. This quiet, but very rapid expansion of our regular foreign trade does not possess the spectacular features of the war supply business, but it is much more important. We are establishing for our products, markets the world over which we will be able to hold to a large extent after the war.

Exchange Between Nations

We must recognize, however, that we can be permanently successful in selling only certain commodities to foreign countries. Nature has endowed each country with certain special advantages which enable it to produce certain commodities better or cheaper than they can be produced elsewhere. It is the part of international commerce to effect an exchange between the

nations of the earth, of the various products for which they are thus specially fitted. It is a common fallacy that it is the duty of a government to artificially stimulate exports. It is the proper function of a government to foster an industry until it is able to meet international competition, provided it is evident in advance that the country is specially fitted for engaging in that particular industry. If, however, a nation can purchase abroad a certain commodity cheaper than it can be produced at home, then it is an economical error to stimulate the home production of that commodity and it should be imported. This is just as true as that a skilled mechanic should not waste his time performing unskilled labor which can be purchased at a wage level lower than that of the skilled mechanic. We must therefore recognize that the permanent development of our foreign trade shall consist not only of the increase of our exports in certain lines, but also of the increase in the imports on other lines. We must not lay undue emphasis on selling abroad, but must bear in mind that selling abroad should go hand in hand with buying abroad. Now let us see what methods have been the most effective in promoting our foreign commerce and what steps should be taken to further our development in that direction.

Selling Methods

It is far more difficult to force an entrance into foreign fields of trade than into domestic fields, and yet we find that in many instances our merchants and manufacturers have endeavored to introduce their goods abroad with far less preparation than when they enter upon a domestic selling campaign. The experience of our successful foreign traders shows that in entering the foreign commercial field spasmodic efforts are of but little avail. Selling by means of circulars, catalogs, etc., may result in a few small orders, but success in a large way can only be obtained by maintaining permanent field organizations abroad equal to those of our foreign competitors. This may sound discouraging to the small merchant or manufacturer, but it is merely a statement of the conditions that must be met and the American manufacturer and merchant must adapt himself to them. It seems to me that there are three ways of successfully entering foreign fields of trade.

First: Large concerns commanding adequate resources, and having ample credit facilities, can enter these fields by establishing branch offices abroad with competent sales managers and credit men in charge; maintaining a field force of salesmen; keeping posted on local conditions and carrying stocks of merchandise on hand, etc. With such concerns, the problem consists largely of building up a competent field organization. In practically every instance they are successful if their products are really needed abroad.

Second: Dealing through export and import houses. At the present time this is probably the most satisfactory method open to the small merchant and manufacturer. We have in this country a number of large export and import concerns of good standing that have

built up the necessary organizations for trading in foreign fields. Exporting or importing through their mediation, of course, results in a smaller percentage of profits for the American merchant or manufacturer, but this reduction in profits is by far offset by the saving of the losses and expenses that would be encountered by the small manufacturer or merchant were he to alone attempt to enter the foreign field.

There is a third method—by far the most effective—which unfortunately is not now available to our merchants and manufacturers. This method is by means of so-called “trade combinations.” Unfortunately this method is not permitted by our laws and I believe that proper legislative steps should be taken at once to remove this obstacle from our path. Not only should our merchants and manufacturers be permitted to combine for the purpose of entering foreign fields, but such combinations should be encouraged by our Government, as it will be only by such means that our small manufacturers and merchants will be enabled to successfully cope with similar combinations organized under the patronage of various foreign governments.

Trade Combinations

It has been said that it would be inconsistent for our Government to assist or even permit the organization of such combinations, as its policy in this country is directly the reverse. There is, however, a great difference between the economic effects of a domestic trade combination and those of a foreign trade combination. Such combinations in the domestic fields would result in artificially high prices and very properly our Government is protecting the interests of the people by prohibiting measures that would result in the illegitimate gain of a few at the expense of the public. Combinations of merchants and manufacturers organized under proper legal regulations which would enable them to enter foreign fields, but not to trade at home, would have no effect upon the price levels in this country. They would not even have the effect of raising price levels in the countries entered by them, as there they would meet the competition of the merchants and manufacturers of foreign countries. Only by means of such combinations can our small merchants and manufacturers maintain foreign sales organizations consisting of a field force in charge of competent managers and credit men.

Proper Legislation

I am glad that the movement for adopting proper legislation in this direction is gaining favor throughout the country. The Federal Trade Commission recently sent out inquiries to about 1,000 representative merchants and manufacturers, asking their opinion regarding the advisability of amending our laws so as to permit the organization of foreign trade combinations. Over eighty per cent. of the replies were in the affirmative, and I sincerely hope that our Congress will promptly respond and pass a law enabling the small merchants and manufacturers of this country to take advantage of the present opportunity of entering and

establishing themselves in the foreign fields that have been opened to us by the present war.

What Bankers Can Do

We now come to the part that is being performed and that should, in the future, be performed by our bankers in the development of our foreign trade. The banking machinery of this country is in excellent condition to perform its part. The operation of the Federal Reserve Act in reducing reserve requirements resulted in a large amount of money being released from bank vaults and made available for commercial purposes, and the shipments of gold received from abroad have formed the foundation of an expansion of credit that has further increased the supply. The joint effect of these two factors is evidenced by the unprecedented low rates of interest at which money can be borrowed in this country. The supply of funds for legitimate commercial purposes far exceeds the demand. We are therefore well able to finance a large increase in both our domestic and foreign trade. What are the duties of the banker in connection with this movement?

Extension of Credit

Fundamentally, a banker is a dealer in credits. He buys, sells and standardizes credits. For instance, the credit of John Jones, the merchant, is known to his banker. His standing may also be known to some extent to a narrow circle of his close business relations, but it is not generally known. It is the proper function of his banker to furnish him credit in such form as will enable him to purchase his goods in all parts, not only of this country, but of the entire world. This credit may be extended in various ways. If the merchandise is to be purchased in some part of this country, the banker may make a loan to the merchant against which he draws his checks in payment of his merchandise. If the purchase is to be made abroad, the credit may be extended in the form of a commercial letter of credit on the faith of which the foreign seller will ship the goods and draw in payment his draft at one, two, three or six months' sight. In each instance, however, the part of the banker is to furnish such credit facilities as the standing of the depositor warrants and the nature of his business requires.

Credit Facilities

The main function of a banker in connection with our foreign trade, just as it is in connection with our domestic trade, is to furnish credit facilities. In the case of exporters who are compelled by the customs prevailing in foreign countries to sell on long terms, it is the proper function of our bankers to extend credit that will enable our exporter to meet these conditions. The limit that is naturally fixed upon such extension of credit varies in accordance with the nature of the business, the class of customers to which the exporter sells and the standing of the exporter himself. You will observe that the same principles prevail here as those prevailing in connection with domestic trade. In the case of importers, it is the proper function of a banker to

furnish credit for a sufficient length of time to bring the goods to this country and market them. The extent to which such credit facilities are given again depends upon the nature of the business and the standing of the importer. Both in the case of the exporters and the importers, I have no hesitancy in saying that American banks are able and anxious to furnish all the credit that is justified by the standing of their clients and that may be necessary for carrying on their business.

Incidental Services

In addition to these fundamental functions, a banker should perform such incidental services as naturally come within his sphere. Through his foreign banking connections he is able to assist his clients by giving them information regarding the standing of foreign manufacturers and merchants. Our merchants and manufacturers, however, are not justified in depending solely upon the information furnished them by their banks. Such credit information should be supplemented from trade and other sources, just as in the case of domestic trade. Any American banker will be glad to inform his customers regarding the methods whereby they may obtain such additional information. Mercantile agencies are established the world over and should be used to supplement the information received from bank and trade sources. The foreign field organization of the American merchant or manufacturer should also be used in this connection.

Another important service that is rendered by the American banker is the collection of amounts due our exporters and the payment of amounts remitted by our importers. While in many instances these are comparatively simple services, still in many cases an experienced foreign banker is able to give advice regarding banking customs that avoid delay in the payment of drafts, losses on exchange, etc.

Minor Services

There are numerous minor services, many of them resembling to a large extent the services performed by a banker in connection with our domestic trade. Whether the services I have outlined above are rendered by the American banker to his client through the mediation of correspondent and affiliated banks, or through the mediation of agencies or branches, must depend upon the circumstances governing each case. If the American banker finds that he can render better service by establishing an agency or a branch in a foreign city it is obviously to his advantage to do so. If, on the other hand, his correspondents in a foreign city offer such facilities that it would be impossible to furnish equal service through an agency or a branch, it is equally obvious that he should retain such connections. It is not difficult to see that the service which an American bank can obtain for its clients in a foreign city through the mediation of a large, well established local bank having an organization consisting of several hundred employees is likely to be far superior to the service that it could obtain by establishing a modest branch. All these factors must be

weighed in the balance before the American banker can arrive at a decision whether the interests of his depositors are best served by means of correspondent and affiliated banks or by an agency or a branch. The circumstances prevailing in each country, and even in each city, must be taken into consideration separately. In many cities, the large local bank has access to means of obtaining information which would not be open to the branch of an American bank. Through its directorate and stockholders it may also have influence in other directions that would for many years be inaccessible to a newly established branch. In many instances the best results will probably be obtained by establishing not branches but agencies which will supplement the services of the correspondent banks.

Experience of Others

In attempting to solve the many problems that confront us now and that will undoubtedly arise in the future in connection with the development of our foreign trade, we can only partially be guided by the ex-

perience of other countries. Because Germany has been successful by using certain methods is not in itself a convincing argument that we should be equally successful if we adopted the same methods. Our industrial, commercial and political conditions must be taken into consideration and if our progress is to be steady we must cautiously feel our way, adapt ourselves as much as possible to conditions as we find them abroad and not be discouraged if the rewards do not come as quickly as we had hoped.

Our Opportunity

The present war has created a vacuum in the world's commercial markets to fill which our commodities are being drawn at an unprecedented rate. This attractive force, however, will continue only for a short time, and during that brief period we must endeavor to build up a foreign trade organization that will enable us to retain those markets when the present abnormal conditions no longer prevail. This is the hour of our opportunity.

GRASSHOPPERS AND ANTS

EDITOR JOURNAL-BULLETIN:

The erroneous attitude of certain Chapters concerning their activities is evidenced by such expressions as "We feel that something special must be put on at general meetings in order that interest might not lag;" "Our program should be made more attractive in order to hold the Chapter members;" "More 'pep and ginger' should be put into Chapter activities in order to hold members."

It is a source of some discouragement that all Chapters do not seem to grasp the real idea of the Institute—education. If education will not win, nothing will win. To stimulate with any sort of merry-go-round stuff is like treating "that tired feeling" with whisky or morphine. The temporary exhilaration is fine, but the relapse is final. It is far better to have fifty members working to be better bankers than 250 using the Chapter as a joy factory. It is about time that we realized the great need of men who understand the profession of banking. This is only acquired through first obtaining the fundamentals of banking knowledge through the Institute course of study, leading up to a certificate which has a recognized value.

It is impossible to build the foundation of a building on the second story. You must start at the beginning to build your foundation.

A few weeks ago *Life* had a series of three pictures with one subject, namely, "The Grasshopper and the Ant." The first of the series was a picture of the grasshopper, which was represented by a man "having the

time of his life" dancing, his favorite pastime and study. The second picture represented a man "burning the midnight oil," who realized that

Heights of great men reached and kept
Are not attained by sudden flight;
But they, while their companions slept,
Were toiling upwards in the night.

The third picture showed the two men some years later; the man representing the grasshopper was applying to the man representing the ant (the worker) for a job.

It is a peculiar fact that many bank men believe that they can become bankers, in the real meaning of the word, without first going through the crucible of training. Evidently this class of men believe that when the time comes for action they can accomplish what they want through "bluffing." This may have been true in the past, but to-day much more is expected of a banker, and when "bluffing" is tried generally it is like that steamboat described by Lincoln as having a five-foot whistle and a two-foot boiler. Every time the whistle blew the boat stopped. There are too many men wearing size seventeen collars and size six hats. How many bank men can explain why they are protesting a note? How many can explain to their customers the operation of the Federal Reserve Act?

It is about time that officers of Chapters gave up the terpsichorean idea of conducting Chapter activities and instead get down to making better bankers.

THOMAS EDWARDS.



Study Course in Savings Banking

LESSON 6

Stock Savings Banks

How the Stock Savings Bank has Helped Develop the
West—Its Advantages—California Banking Laws—
Organization—Supervision—Investments—Loans—
General Conduct—Conclusion.

By E. G. McWILLIAM

Publicity Manager, Security Trust and Savings Bank
Los Angeles, Cal.

BY the average mutual savings banker of New York and New England, stock savings banks are regarded more or less as trespassers upon a divine right—the right to encourage thrift by inviting the deposit of savings, in small amounts, by the public.

On the other hand it is well-nigh beyond the comprehension of the stock savings banker of the west or middle west that billions of the public's savings have been intrusted to banks which in the beginning offered as security only the honor of their incorporators and whose money security in the form of surplus is naturally slow in accumulation.

It is to be hoped that this series will accomplish much toward enabling each of the above-mentioned bankers to better understand the other, and if this article may aid some to a clearer conception of what the real stock savings banks of our country stand for, and to appreciate the fact that in their benefits to the public there is little difference between stock and mutual savings banks, the writing of it will not have been in vain.

Stock savings banks are a natural result of a rapidly developed and developing country.

Promotion of Banking Facilities

Let us go back a little. We find that the first savings banks were benevolences. Public-spirited men gave of their time a few hours each week to receive and care for the savings of their fellows. Gradually these benevolences were taken advantage of by the public to such an extent that it became necessary to employ men and even construct buildings to properly handle the immense amount of detail incident to receiving and investing the savings of so many people.

During the years that it took for these first savings banks to develop to such an extent, the country had also been developing by leaps and bounds. Aided by immigration from all parts of the world our population continued to increase so rapidly that the Eastern States were soon outgrown and great cities and agricultural empires sprang into existence in the west and middle west.

Naturally in a new and populous country conditions differ from those which existed at the time and places where the first savings banks were organized. In the new country there was not the intimate acquaintance and confidence born of long residence which men acquire in older communities. This new country demanded facilities for saving as well as for commercial banking. However, it would not tolerate beginning with banking facilities such as were offered by the first savings banks. The people of this new country demanded up-to-date banking rooms and service, and demanded security for their savings together with a fair rate of interest. So long as the security was apparent and the fair rate of interest paid, a fair profit to the banks was considered only equitable.

So it was quite natural that business men in this new country should organize stock corporations for the purpose of receiving and investing the savings of the people, the incorporators using their own money for the creation of a guaranty fund and for providing proper rooms and service for the convenience of savers, exactly as it was eventually found necessary to do during the development of the first or mutual savings banks, only in those banks it was necessary to provide such conveniences out of the profit which accrued from investing the depositors' money.

And so the stock savings bank came into existence. Unfortunately, legislation in all states has not kept pace with natural development and we find laws here and there inadequate, or none at all, for the protection of savings depositors. However, be it said to the everlasting honor of the bankers in such states, the percentage of losses to savings depositors in those states has been almost negligible, although the absence or laxity of laws for the protection of savings in said states is probably responsible for the misapprehension upon the part of the New England savings banker in regard to stock savings banks generally.

It is also unfortunately true that in many states the word savings is used promiscuously in bank titles so that it is quite usual in such states to find a bank with the title of "savings bank" which in reality does only a commercial business.

Advantages of Stock Banks

Time or space will not permit of a résumé of the banking laws of the various states, but in passing it is interesting to note that during a recent revision of its savings bank laws, the great State of New York recognized the wisdom of the stock savings bank principle by providing that in all future organizations of savings

banks in that state, the organizers must provide in cash a guaranty fund of at least \$5,000, and in addition an expense fund of similar amount before any deposits are received.

There are little over six hundred mutual savings banks in the United States, only twenty-one of which are located west of Pennsylvania, while there are nearly double that number of stock savings banks located throughout the rest of the country.

For a comprehensive though not entirely up-to-date Digest of State Banking Laws, the reader is referred to that volume of the publications of the Monetary Commission.

In his most excellent book entitled "The Savings Bank and Its Practical Work," Mr. Wm. H. Kniffin, Jr., a mutual savings bank man of long experience, has this to say of stock savings banks:

"Surely a well managed stock bank with the capital stock as an extra guarantee fund is superior to a mutual bank with little or no surplus fund and equal at least to the mutual concern with a large surplus."

And in discussing the distinguishing features of a savings bank he says:

"The solution lies not so much in where the money comes from or in what amounts, but what the bank *does* with it after it has gone through the receiving teller's window."

And again, in speaking of the losses suffered by depositors in mutual banks in the early days in England, Mr. Kniffin remarks:

"Had the interest of the managers been *financial*, as well as selfish, sentimental or political, it is quite likely the administration would have been of higher order."

A comparison of the strength of the mutual savings banks in one of the Eastern States, made in 1914, disclosed the fact that forty-one of the savings banks in that state had surpluses of less than four per centum of deposits, said percentages ranging from three and ninety-five hundredths to nothing—one bank, for instance, which had been in business upwards of eighty years having but two and sixty-two hundredths per centum of surplus.

With these facts taken into consideration in connection with Mr. Kniffin's comments, surely all broad-minded bankers will agree that the stock savings banks operating under adequate state laws and supervision, with a prescribed capital paid in, in cash, before accepting a dollar of the people's money and a stockholder's unlimited liability in addition to the capital, to guarantee the repayment of deposits, are serving and protecting the savings depositor to whom a fixed rate of interest is guaranteed in advance, in a manner at least equal to that of their mutual contemporaries.

And so with this, let us hope, better understanding of the inception of stock savings banks, "what becomes of the money after it has passed through the receiving teller's window" of one of these banks may prove interesting.

California Stock Banks for Savings

With the commercial bank having "savings bank" for a title this article has nothing to do. We desire to consider the organization and administration of the highest type of stock savings bank only. Let us therefore consider the savings banks of California, for while there are other states which may lay claim to the same distinction, the savings banks in this state may at least be said to be typical of the best.

Savings banks are defined in the California Bank Act, as follows:

"The term 'savings bank,' when used in this act, means a bank organized for the purpose of accumulating and loaning the funds of its members, stockholders and depositors, and which may loan and invest the funds thereof, receive deposits of money; loan, invest and collect the same with interest; and may repay depositors with or without interest, and having power to invest said funds in such property, securities and obligations as may be prescribed by this act; and to declare and pay dividends on its general deposits, and a stipulated rate of interest on deposits made for a stated period or upon special terms."

Organization

The California Bank Act authorizes three distinct classes of banks to transact a savings business, namely, savings banks having a capital stock, mutual savings banks and departmental banks.

Departmental banks are banks authorized to transact a savings and commercial business or a savings and trust business, or a commercial and trust business, or all three kinds of business; each, however, conducted in a separate department with separate books of account and according to the laws of the state governing each class of banking, and the law further provides that in departmental banks assets belonging to each department and the investments made shall be held solely for the benefit of creditors of each such department until all its creditors shall have been paid and the overplus then remaining shall be applied to any other liabilities of the bank.

Mutual savings banks must have a reserve fund of at least \$1,000,000 before they may open for business and must maintain that fund at a specified percentage of deposit liabilities, as stated below for stock savings banks. In all particulars such banks must also conduct their business according to the laws governing the conduct of capital stock banks.

Savings banks having a capital stock may be organized by any number of persons, not less in any case, however, than three; and such banks may not open for business until capital stock is paid in, in cash, according to the following schedule:

- \$25,000 if located where population does not exceed 5,000.
- 50,000 if located in a city whose population is between 5,000 and 25,000.
- 100,000 if located in a city whose population is between 25,000 and 100,000.
- 200,000 if located in a city whose population is between 100,000 and 200,000.
- 300,000 if located in a city whose population exceeds 200,000.

For the further protection of depositors the California Bank Act provides that in no event shall the paid-up capital be less than provided for in this schedule, and, in addition, that the capital and surplus of every savings bank must at all times equal the following percentages of deposit liabilities:

Ten per cent. of any amount up to and including \$2,000,000.

Seven and one-half per cent. on amounts exceeding \$2,000,000 up to and including \$5,000,000.

Five per cent. on amounts exceeding \$5,000,000 up to and including \$15,000,000.

Two and one-half per cent. on amounts exceeding \$15,000,000 up to and including \$40,000,000.

One per cent. of any amount in excess of \$40,000,000.

And no savings bank may accept further deposits if these percentages are not maintained.

In order that savings banks may always have adequate cash to meet ordinary demands of depositors, it is also provided that every savings bank must at all times maintain total reserves equivalent to five per cent. of aggregate amount of deposits, one-half of which must be kept on hand, the other half being kept in approved depository banks which must have a specified capital according to location. For instance, reserves may be deposited in banks having a capital of at least \$1,000,000—in New York, Chicago, Boston, St. Louis or Philadelphia.

Supervision

Savings banks in California together with other state banks are subject to supervision and examination by the State Banking Department. The department examines each bank at least once every year and requires reports showing the actual condition of the banks reporting, at the close of any past day designated. These reports are required at least three times a year.

The Superintendent of Banks in this state is given sweeping powers and if he has reason to believe that any state bank is conducted in an unsafe or unauthorized manner, he may forthwith take possession of the property and business in such banks and retain same until its affairs have been placed upon a solvent basis or liquidated.

The board of directors of each state bank are also required to conduct a thorough examination of the affairs of the bank at least once each year and where savings banks have clearing house affiliations, as for instance in Los Angeles, an examination is also made by the Clearing House Examiners at least once each year.

Investments

Having now a general idea of the organization and supervision of savings banks in California, let us consider for a moment what really becomes of the depositors' money after it is passed through the teller's window.

In the matter of dealing in real estate any savings bank may only purchase, hold and convey the lot and building in which its business is conducted, together with necessary furniture, safe deposit vaults, etc., property pledged or conveyed as security for loans and property purchased at sales to satisfy loans made

thereon. The law provides further that no bank's building, fixtures, and so forth shall be carried as an asset to an amount exceeding its paid-up capital and surplus.

Dealing in personal property is prohibited except that necessary for the convenient transaction of business, notes, or bonds secured by real estate, public or private evidence of debt, gold and silver, bullion, and evidences of debt of the United States.

The actual investments of savings banks in this state are rigidly prescribed. First there are the bond investments. These may consist of United States bonds, bonds of the State of California, and bonds of any other state that has not within five years of the investment defaulted in payment of principal or interest.

Also the bonds legal for investment by savings banks in New York and Massachusetts provided that said bonds conform in every particular with the California Bank Act.

Also the bonds of any California county, city, school district, county road division, sewer drainage, reclamation, protection, sanitary, or irrigation districts, subject to certain limitations, and the bonds of any county, city or towns located in other states and conforming to certain requirements as to population, ratio to taxable property and financial record.

Then come the railroad bonds, although no savings bank is permitted to purchase the bonds of any railroad which derives less than twenty per cent. of its gross receipts from passenger revenues. Briefly the railroad bonds in which California savings banks may invest and which must be first liens of the respective properties are as follows:

The bonds of any railroad incorporated and operating exclusively in California, the earnings of which meet certain requirements.

The bonds of any railroad in other states operating at least five hundred miles of standard gauge track and conforming to certain requirements as to earnings.

The bonds of any railroad measuring up to certain financial requirements and the principal and interest of whose bonds is guaranteed by a road of either of the above classes.

Street railway and other public utility bonds meeting certain requirements are also legal investments for California savings banks, as are notes or bonds secured by a first lien upon real estate, provided that at no time shall the entire outstanding issue exceed sixty per cent. of the market value of the real estate taken as security.

Collateral trust bonds or notes which conform to certain requirements are also legal investments for California savings banks.

Loans

Savings banks in California are prohibited from making any unsecured loans and the security offered, whether real or personal property, must exceed in value the amount of the loan by certain prescribed percentages. However, through a recent amendment to the Bank Act, savings banks in this state, under such regulations as the Superintendent of Banks may prescribe, are permitted to discount or purchase commercial paper of the

kind eligible for rediscount or purchase by a Federal reserve bank, to an amount not exceeding five per cent. of deposits, although the purchase of paper of any one individual, firm or corporation under this section is limited to five per cent. of the capital and surplus of the purchasing bank.

Loans to officers or directors, or upon the guarantee of either, are prohibited and no savings bank is permitted to loan an amount exceeding fifty per cent. of its paid-up capital and surplus to any one individual firm or corporation, except that savings banks having a paid-up capital and surplus of less than \$50,000—but more than \$25,000—may make such a loan on real estate security to an amount not exceeding \$25,000, and savings banks having a capital and surplus of less than \$25,000 may make such loans on like security in amounts not exceeding their paid-up capital and surplus.

Savings banks in this state are also prohibited by law from investing or loaning more than fifty per cent. of paid-in capital and surplus on any one bond issue secured by real estate and may not loan more than five per cent. of assets on bonds of any other class except United States bonds and state, county or municipal bonds in California.

Real estate loans must be first liens and in no case exceed sixty per cent. of the market value of the property offered as security. As a matter of fact, real estate loans are generally made on even a more conservative basis, many banks loaning but forty per cent. of their own appraisal. Second mortgages are permitted only where taken to secure the payment of a debt previously contracted or where a loan is made immediately subsequent to one already made, provided the aggregate does not exceed sixty per cent. of the value of the property.

Loans to any one borrower on the capital stock of any one corporation are limited to ten per cent. of the capital stock and surplus of each savings bank and all loans upon stock of any one corporation shall not aggregate more than twenty-five per cent. of the capital stock and surplus of the bank. Savings banks are prohibited from loaning upon or investing in mining stock.

Thus it will be recognized that in California, while every reasonable safeguard has been thrown about the savings depositor, enough latitude has been given the management of the banks to permit them to exercise their judgment in the matter of investments and to maintain a liquidity therein which is not possible in those states where the banking laws hold the banks to more prescribed limits.

General Conduct

In the general conduct of their business and relations with the public, stock savings banks differ little from the mutual banks except that in the former, due to a much larger degree of activity in over-the-counter business and a keen competition, a larger degree of service is demanded by the depositors and rendered by the banks. For instance, in the savings bank having the largest number of depositors in any bank west of Chicago (less than 100,000) there are more than forty

tellers, while in a number of the largest mutual savings banks having over 100,000 depositors each a half dozen tellers or so are all that are necessary.

Stock savings banks generally open various classes of accounts to suit various classes of people, stipulating in advance the rate of interest which will be paid and notice which may be required, which is governed by local conditions and custom. In California the law provides that notice of at least thirty days may be required and notices of thirty, sixty and ninety days, according to amounts withdrawn, are the general rule, although never enforced except in times of financial stress. In this state the savings banks are permitted to issue certificates of deposit and various accounts beginning with the \$1 account with which goes a home savings bank for the children to the savings account with checking privileges, which requires a minimum monthly balance of \$300 to be entitled to interest. In the latter case, however, as in all other classes of savings accounts, the banks reserve the right to require thirty, sixty or ninety days' notice, although ordinarily checks are paid upon demand without pass-books. Joint accounts, trust accounts and married women and minors are all recognized in the law and dealt with exactly as in mutual banks.

Conclusion

By using California as a concrete example, the writer has endeavored to convey a comprehensive idea of the investments and management of stock savings banks under probably the best state law governing that class of banks. There are a number of other states which have excellent laws for the protection of depositors in stock savings banks and each year in some states an improvement is to be noted in that respect. That there is a great deal of room for improvement in some of our middle west and southern states none will deny. But then even in New York and New England changes in the savings bank laws, prompted by changing conditions, have been found necessary, and unquestionably as the business of savings banking expands in those states referred to above, the importance of proper supervision and regulation will be recognized.

In the conduct of stock savings banks two important principles have been recognized in those states which have given the matter the most consideration, namely, that of giving the management of banks sufficient latitude to exercise their own judgment in the matter of investments and the principle of the segregation of saving deposits.

A middle western banker, speaking before a body of bankers some time ago, said:

"The loans and investments of a bank may be considered to be the heart which furnishes the life to the whole organism. With that organ sound and healthy the whole body will perform its functions. If the heart be not sound the vigor of the whole organization will depreciate and suffer decay, leading, if not remedied, to disaster."

Recently another banker wrote several banks requesting their views as to a model investment policy for his bank. It would not be surprising if each of the re-

plies differed according to the local viewpoint of the writer. And that illustrates the point we are trying to make, namely:

In the states where stock savings banks are operating, money is so active that while state laws may prescribe certain limits of investment, the individual heads of those banks, each of which operates under peculiar local conditions, must be given a large discretion in the matter of investments so that at all times there may be a sufficient percentage of liquidity therein to meet the demands which those local conditions may create.

No one influence has done more to keep the "heart" of stock savings banks healthy than the effective clearing house associations that are found in all of the larger western cities. With a system of examinations more thorough in most cases than either national or state and an intimate knowledge of local men and affairs, the clearing house officers are in a position to know the policy of every bank in their city and to speedily discourage unsafe banking which would lead not merely to one failure but possibly to disaster to a whole community. Even in states where the laws relating to savings banks are not as complete as in California, little apprehension need be felt for savings depositors so long as clearing house associations continue to multiply in number and effectiveness.

The question of the segregation of savings deposits is a much mooted one, although it would seem that antagonism to the principle emanates largely from those who do not thoroughly understand it. Nine or ten states have adopted the principle of segregation and the testimony of bankers in those states is to the effect that rather than being a detriment it has been the means of

added business through increased confidence in the banks upon the part of the public.

It is to be regretted that having recognized savings deposits as such and encouraging their receipt by national banks, the Federal Reserve Act did not also provide for a segregation of such business. Commercial deposits must be paid upon demand. By agreement, national banks may require thirty days or more notice of withdrawal from savings depositors, whose money has been used exactly in the same loans and discounts as the commercial deposits. There is therefore no valid excuse for requiring such notice. Savings depositors from whom notice is required should have the assurance that assets of at least the value of their deposits have been set aside to assure the repayment of such deposits. The character of the assets so segregated naturally would vary in different sections of the country. But, whether it be loans on hogs or first mortgages on city real estate, the one being just as good as the other under certain conditions, the savings depositor who has to wait for his money is justified in demanding that some security be set aside for his protection.

Stock savings banks make no pretenses to being benevolent institutions. They are organized frankly as business propositions for profit. However, these banks in order to be successful must prove to the public that they possess the fundamental elements of success in banking, namely, strength, integrity and service, and wherever stock savings banks are operating with notable success, it is safe to assume that the management of each has passed through "lean years" until the public became thoroughly convinced that the three fundamentals were there.

CENTRAL IDEAS

The central idea of the American Institute of Banking is systematic educational work. The central idea of the Central Trust Company of Illinois seems to be the American Institute of Banking. *Central Clearings*, published by the Fellowship Club of the Central Trust Company, says:

"In looking over the list of members of Chicago Chapter we notice with considerable pride that our bank stands third in membership total, with ninety-one members, led only by Continental and Commercial National and First National Bank. In the years past our best record has been around the sixty mark, and we thought that was pretty good. Dick Rood and J. Hays, however, didn't see it that way, and so they went after the membership campaign this year in great style, with the result as noted above. Of course, some of the other fellows lent a hand, but to Rood and Hays the credit for the splendid increase is due. Along with the increase in membership has come an increased interest in the study classes provided by the Chapter. This is most gratifying. In looking over the list we find that E. R.

Swanson, J. Hays, C. A. Elsner, R. J. Welsh, A. N. Root, Ed. Jaeger, Don Riley, R. W. Gratton, M. C. Smeck, W. Kellough, R. F. Kirchoff are studying in the Effective Speaking Class and Debate Society; Ralph Johnson, Franklin Wales, W. G. Kokemuller, Alex Brown, E. W. Jaeger, A. N. Root, R. J. Welsh, M. C. Smeck, Richard Rood, Louis Francis, L. A. Higgins, L. H. Thory, Herb. Johnson, F. Bradway, Alex. Bloom, E. Malesky, A. Sundin, C. Pathael, E. J. Lukanitsch, E. Koretz, H. C. Stake, R. F. Kirchoff, P. J. Culleney and W. Weir are following the study of English; I. W. Gratton, L. H. Thory, H. G. Halvorsen, A. Knudsen, C. E. Ahrensfield are in the Banking and Finance class, while the course in Commercial Law and Negotiable Instruments claims A. G. Harris, E. F. Shurey, A. Knudsen, Franklin Wales, Richard Rood and A. Sundin. When we look over this list and take in consideration the number of our fellows who are already Institute graduates and others who are carrying on studies outside of Chapter, we feel the strength of the desire for a broader education that is among the men at this bank."



ALL ROADS LEAD TO CINCINNATI—INSTITUTE CONVENTION, SEPTEMBER 20, 21 AND 22, 1916

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INSTITUTE CHAPTERGRAMS

ALBANY

By J. Raymond Roos

The Fourth Annual Banquet of the Albany Chapter was given on Thursday evening, March 23. The Hampton, one of our city's prominent hostilities, was made more popular by our large gathering. Covers were laid for ninety. The room was arranged in splendid style, and made more beautiful by a large American flag and palms artistically arranged. Candelabras were lighted everywhere and gave the room the appearance of a scene from fairyland.

Ninety bank men, including many bank officials from the Albany, Troy, Amsterdam and Altamont banks, besides C. Leland Getz, president of the Baltimore Chapter, Charles S. Shaw, president of the Pittsfield Chapter, Prof. Lewis R. Parker, of the faculty of the Albany Law School, Dr. Sokolski, formerly of Columbia University, Prof. Robert T. Hill, of Union College, and John D. Gordon, of the Knickerbocker Press, stood awaiting the chairman's call, "Be seated, gentlemen," and then began the most enjoyable evening the boys ever spent together. From eight fifteen o'clock until ten, one good thing followed another, until even the most fastidious appetite was satisfied by the excellent dishes.

Godfrey J. Smith, president of the Albany Chapter, was toastmaster. After a short address of welcome, also a review of the good work the Chapter is about to complete and the part it is taking in the "Thrift Campaign," he presented First Lieut. Herbert H. Acheson, U. S. A., who spoke on "Preparedness."

"The man who desires to become a soldier," said Lieutenant Acheson, "must develop many traits of character which are commonly neglected. We cannot afford to devote a large part of our manhood to the profession of arms and thus create a large standing army, but we are not emphasizing enough the physical side of our education." Lieutenant Acheson said: "There is a possibility of European countries becoming jealous of America's great wealth which might have a tendency to bring this country into a war."

Dr. C. Edward Jones, superintendent of the schools of Albany, and Thomas J. McMahon, spoke. Mr. Jones spoke on Thrift, stating that there are numerous ways of being thrifty. "Money saving is not the only way in which a person can be thrifty," said Mr. Jones. "Persons idling their time and talk are wasting opportunities, no matter how thrifty they might be in other ways. Thrift is an important factor in better home-making and, when people generally become aware of this fact, we will have many better homes."

The corporation finance course by Dr. A. M. Sokolski has just ended, while the law class, under the direction of Prof. Lewis R. Parker, has finished studying negotiable instruments and will now take up the volume on "Contracts."

On March 10, Godfrey J. Smith, president of the Albany Chapter, received a letter from Hon. Joseph W. Stevens, Mayor of Albany, endorsing the thrift campaign and praising the junior bank clerks for their efforts in this good work. Thrift talks during the month of March were delivered at several leading churches and social centers. The "Thrift Placards" which were brought to Albany through the efforts of the Y. M. C. A. and the Albany Chapter, aroused considerable interest. Slides for moving-picture machines showing the value of thrift by figures, pictures, mottos and contrasts are being used by several of the leading movie theaters in Albany. That the children of the schools of Albany are eagerly seizing the opportunity for saving money offered them by the school savings bank system is evidenced by the fact that, since the 1st of February until March 19, 536 children have become depositors in the National Savings Bank with a total deposit amounting to \$2,700.80.

ATLANTA

By T. I. Miller

Beginning on March 21 and continuing for one month, Atlanta Chapter has designated this as her "Thrift Month." During this time we hope to get started a campaign that will be so interesting, so instructive and so valuable that it will last not only one month, but for all time. It is our purpose to educate our people to save. The banks of the city of Atlanta have joined in an advertising campaign, which is devoted altogether to the thrift idea, to teach our people to be savers. Three times each week in our leading daily papers there appears a full page of ads together with a long article on thrift. With this we have editorials and news items. Not only through the press but through the pulpit we hope to reach our people. On one Sunday during this month the pastors of the different Atlanta churches will talk on thrift. The teachers in the city schools will be asked to devote one study period to thrift talks. To bring this "Month of Thrift" to a close we will run for three days the Reward of Thrift at one of the leading movie houses and on Saturday morning it will be shown free of charge to the school children of the city, and Saturday night at one of the labor rallies.

Atlanta and Macon Chapters are conducting a statewide campaign on thrift. These two chapters have mailed to the leading newspapers in every county of the state of Georgia a circular letter setting forth the purposes of the thrift campaign, and asking their co-operation in the work. We are glad to report that a number of the papers have consented to join us, and will publish each week the "Talks on Thrift."

Though most of our time for the past few weeks has been devoted to working up the thrift campaign, we have found time for our study course, and we are glad to say that our attendance is still on the increase. Already we are planning for our annual banquet which will come near the close of our year.

AUSTIN

By Edward Robinson, Jr.

Our Chapter was organized in January with a charter membership of 32. Since that time we have increased to 55, all of whom are registered for the study class in commercial law. Our attendance has averaged over eighty per cent. Professor Potts, of the State University, is our instructor. Professor Hillebrand, of the State University Law Department, has given two interesting talks on his specialties, Agency and Corporations. Mr. Penix, National Bank Examiner of this district, gave us a very interesting talk at one of our meetings. A great deal of the progress of our Chapter is due to the enthusiastic leadership of President Rogan, who keeps the Institute and its aims before the members at all times.

BALTIMORE

By J. Adreon Keller

The fourteenth annual banquet of Baltimore Chapter was held on March 11 at the Hotel Belvedere. This banquet was the most successful in the history of Baltimore Chapter. Not only were the applications for places far in excess of 450, the capacity of Baltimore's largest hotel, but also the personnel of the banqueters was a testimonial to the esteem in which the Institute is held by the general banking fraternity. Practically all of the institutions of Baltimore were represented by their highest officers, who entertained as their guests the officials of banks from neigh-

boring cities, such as New York, Philadelphia, Richmond, Washington, etc. The speakers of the evening were Lewis R. Franklin, vice-president of the Guaranty Trust Co. of New York, and president of the Investment Bankers Association of America; and the Hon. Martin A. Morrison, member of Congress from Indiana. It was also our pleasure to have as our guest of honor Robert H. Bean, president of the Institute, who briefly described its activities and spoke optimistically of its future in finance.

After the diversion of the banquet, educational work in Baltimore Chapter started with a new impetus. The law classes are being very well attended and the quizzes on the first part of the course showed very gratifying results. There is every evidence that the men who have completed this first leg of the journey towards an Institute certificate will persevere to the end and will make a material change in Baltimore Chapter's ranking as expressed by the number of certificate holders of the different Chapters.

BOSTON

By Leo Wm. Huegle

After a very successful season, both the senior and junior banking courses have ended. Over sixty per cent. of the one hundred qualified men took the senior course examination and are now eagerly awaiting the returns. The list of graduates, now ninety-seven in number, should be lengthened considerably after the outcome of the examination is announced.

Our first graduate conference was held on March 9, at which time Frederic H. Curtiss, Federal reserve agent, talked to us on "The First Year of the Federal Reserve Bank in Boston." A brief history from October 1, 1914, when Mr. Curtiss received notice of his appointment, up to the present time, gave us an insight into the workings of the system.

Raymond B. Cox, vice-president of the Webster and Atlas National Bank, gave us an interesting discourse on "Trade Acceptances" at our second conference held on March 16, explaining many of the advantages and disadvantages viewed from the standpoint of the merchant and the banker.

These conferences are proving very valuable to the men, as many puzzling phases are readily explained by the leader during the general discussion which follows the talk.

Again the graduates have been the guests of the United Drug Company, this time (March 7) the candy factory being inspected. Louis K. Liggett, president and founder of the company, a masterful leader, has apparently inoculated his men with his anti-failure prophylaxis, as an individual cannot visit one of his establishments without being imbued with the spirit of success.

Our men, divided into groups each in charge of a competent guide, were shown over the entire eight stories occupying 100,000 square feet of floor space. Some of us had been told that a visit to a candy factory would forever cure us of our craving for sweets. To have that idea disproved one needs only to visit this factory where every sanitary precaution is used and where quality comes first.

Interest in military work continues still unabated. Three of our men, George B. Fox, of the National Shawmut Bank, Arthur O. Yeames, of the Suffolk Savings Bank, and Livingston Davis, brought honor to Boston Chapter by successfully passing the competitive examination for the position of corporals in the Professional and Business Men's Military Training School of the First Corps of Cadets, M. V. M.

Through the generosity of a number of Boston banks, many of our men will be enabled to obtain a leave of absence (with salary) to attend the Plattsburg Military Camp this year. In most cases the banks will pay the entire expenses of the men, and in some cases will grant the regular vacation in addition. Boston banks are surely doing their share in this great forward movement, "Preparedness."

BUFFALO

By Lawrence H. Geser

"Personality in Banking" was the subject of an inspiring address delivered by John A. Kloefer, president of the New York State Bankers Association, before Buffalo Chapter at an open meeting held on the evening of March 22. Mr. Kloefer treated his subject from a long experience gained during his banking career, starting as a clerk in a country bank and rising to his present position as president of the Union Stock Yards Bank of this city. While with the country bank, he came in contact with all its customers and was given an excellent opportunity to study human nature.

Mr. Kloefer began his address by saying: "It was Alexander Pope who said that the proper study of mankind is man, and I have always felt that in the course of study laid out for the young banker, there should be included the subject of human nature. I am confident that many an experienced banker will agree with me when I say that more business is obtained and held for banks throughout the country by a proper understanding of human nature than by all the technical knowledge of banking that ever was invented. Mind, I do not want in any way to belittle the importance of technical study for the young banker. Far from it. To attempt to be a banker without such knowledge would be very much like facing the old problem of making bricks without straw. But, on the other hand, to attempt to be a successful banker without making a point to study and understand human nature, is like trying to make bricks without clay."

After citing to us an instance of a very good customer who considers, perhaps rightly, that he has a distinct grievance against the bank and comes into the bank with the settled purpose of transferring his business to some other institution, the speaker remarked, "In handling a case of this kind, everything depends on the character of the customer and the ability of the bank officer to grasp his nature, study the state of mind he is in, and gently lead him away from his avowed purpose. I honestly believe there is practically no case of this kind in which an officer with a proper knowledge of human nature could not smooth down the ruffled feathers of such a customer and send him away satisfied to leave his business with the bank. On the other hand, a false step and the business is lost, an enemy is made who will unquestionably in the course of time work an increasing quantity of harm and cost the bank a great deal of business. This may sound rather trite and elementary, but personally I have known of so much good business lost by banks as a result of the lack of knowledge of human nature, that I feel I cannot lay too great importance on just such a seemingly commonplace instance. To be successful, we need not only the great virtues of courage, faithfulness, diligence, and the rest, but we also need a substantial measure of that practical good sense which teaches us how to act in handling the complicated problems of human intercourse. A few polite words will accomplish wonders, and I think that among the very first duties of every bank employee should be the one of studying the nature of the customers with whom he comes in contact, and act accordingly. We have all met the customer to whom it is a real suffering to be pleasant and we know that in his presence we must restrain any undue enthusiasm toward friendliness and very gently allow him to understand that we believe life is worth living. On the other hand, there is the man bubbling over with enthusiasm, who would feel very much hurt if we did not meet him with a broad smile and a pleasant "good day." Between these two extremes come the great majority of customers, and in dealing with them it is just a matter of watching how the land lies and trimming our sails to the breeze. We can build business for our bank, we can add new customers, and we can incidentally—between us this is a very important matter—increase our salaries by thus increasing our usefulness to our bank."

"Then there is another very important interpretation that can be placed upon this matter of personality in bank-

ing, and that is the personality of the banker himself and his duty to set an example for others to follow. The banker, in spite of all the hard things that are said against him, is still looked upon as a person of some influence and importance in the community. Therefore, it is surely his duty to cultivate and develop the kind of personality that will be a credit, not only to his institution and himself, but also to the entire banking profession. Because one member of a profession may do something contrary to the public idea of what his conduct should be, the entire profession has to bear the weight of his shortcomings, and we bankers know to our cost what this means. Therefore, I want to say, most emphatically, that for the honor of our great profession, every one of us should feel a personal responsibility to avoid giving any occasion for the public to judge the banking profession in anything but a good light from our example. Personality of the right kind among the officers and employees of a bank is certainly one of the strongest assets an institution can have.

"A quite important feature that I wish to touch upon in connection with this question of personal relations in banking is the drawing closer together of the customer and the banker. I feel very strongly that this question is one which is becoming more prominent in banking as time passes, and we bankers ought to do all in our power to meet our responsibilities in the matter. We must do more than make the customer feel at home in the bank and encourage him to use all the facilities provided; we must meet him more than half way, and in our personal contact with him as well as in our advertising, we should impress upon him that the banker is actually his friend and educate him to realize that it is to his advantage to seek the advice of his banker before undertaking even the most insignificant business venture or making the smallest investment. Did you ever stop and realize the vast amount of money that goes wrong every year in impractical business enterprises and unjustifiable speculation? There are many well-meaning people, who, through lack of intelligent advice, go forward with business enterprises or place their money at interest in a manner that foredooms them to failure. It is to such people the banker owes a real duty to educate them to the understanding that they should look upon him as their friend and counsellor; that just as a man goes to a doctor when sick, or to a lawyer when in need of legal advice, so should he go to his banker when there is anything in connection with his money matters that needs attention. The more thoroughly close personal relations are maintained between banker and customer, the more satisfactory will banking service become to the community at large, and incidentally the greater will be the volume of business transacted to the profit of all concerned. Let us, therefore, by every means within our power, so conduct our business and treat our customers, that every month will see an increasing amount of confidence placed in our institution and a larger number of people making use of the advice and assistance we are in a position to render.

"After all is said and done, the only actual thing a man has in this life is his personality. We know only too well that the force of circumstances may deprive him of all his possessions, but there is nothing short of death that can rob him of his personality and that is why, in cultivating our mental and material assets, we should never overlook the greatest possible asset of them all, the pleasing and successful personality that makes a man worth knowing and makes him a tower of strength to his institution, to his friends and to himself."

On April 5, James Rattray, chairman of our Thrift Committee, will talk on "Thrift" before the members of the Central Y. W. C. A. The Thrift Committee is considering plans for approaching the Board of Education relative to introducing school savings banks in the various schools.

The law class continues to be well attended and is making rapid progress, being well on the way toward completing the second part of the course covering the law of negotiable instruments. Pres. H. H. Halm, Jr., and Treas. Gordon Cleversley represented the Chapter at the annual

banquet of Group No. 1 of the New York State Bankers' Association held March 4. The Chapter has tentatively fixed upon some day in May for the annual banquet and preparations are under way. We expect our banquet this year will be the most successful we have ever had.

CINCINNATI

By William Beiser

John D. Ellis, the instructor of the class of public speaking, gave a very interesting lecture at the meeting of March 21 upon the "Negotiable Instruments Act." It was news to hear that the codification of laws respecting negotiable instruments was proposed at a meeting of representatives of Columbia University and the Harvard Law School, and that the "Negotiable Instruments Act" is a result of the efforts made at that meeting to free instruments of commerce of impediments which arose in the handling of commercial paper because of a confusion of laws of the different states of the Union. He said it took seventy-five years of historical conflict to evolve the principle that a negotiable instrument must be payable to the order of bearer or payee certain of being identified. He referred to a very interesting old case where an instrument was payable to the order of the "town pump." Attention was called to the risk incurred by a bank in paying a check for John Smith signed by John Jones and payable to the order of John Smith. In the particular case the check was stolen by John Smith from the desk of John Jones. As delivery, which is essential in the negotiation of instruments, was not made, any defense that Jones had against Smith could be set up as a defense against the bank. Very many interesting decisions were explained. The members kept the lecturer busy up to 11 P. M. answering questions bearing upon negotiable instruments.

Prior to the lecture Wm. H. Frantz, Fred Lange, Ray L. Poland, Edward Bishop, James C. Hogan and Joseph C. Lohrey spoke on thrift. The progress made by these students in the art of public speaking was a revelation to the members. They showed a ready command of language—developed thoughts in regular sequence and properly expressed them. They would prove able representatives of the organization in talks upon "Thrift" before other organizations.

The various committees in charge of the details of the convention are now hard at work. The committees are composed of about thirty-five members who have entered upon the work with a keen enthusiasm.

GREAT FALLS

H. V. Alward, cashier of the Commercial National Bank of Great Falls, Mont., has been elected to the position of vice-president and cashier of the Fidelity Trust Company of Tacoma, succeeding F. H. Luce, who resigned to become the vice-president of the National Bank of Commerce of Seattle.

Mr. Alward has been cashier of the Commercial National Bank of Great Falls for the past year and is secretary of the Montana State Bankers Association. He was born in Nova Scotia and has been engaged in the banking business since 1899, when he entered the employ of the Bank of Nova Scotia as a junior clerk. He has since engaged in the banking business in Missoula and Kalispell, Mont., and is a graduate of the American Institute of Banking.

HARTFORD

By Clarence T. Hubbard

Over 160 members of Hartford Chapter assembled at the Hartford Club on February 26 for the fourteenth annual banquet. The event was a great success in every way through the endeavors of its live banquet committee: Wilbur

S. Sherwood, chairman; George F. Kane and George MacKinnon. The entire affair was of course under the strict surveillance of Pres. Wilbur F. Lawson who also appeared as toastmaster. An orchestra of ambitious players lent "life" to the occasion and an up-to-date song leader won merited applause for his tireless efforts.

After a very palatable menu President Lawson introduced the second half of the evening with a brief address in which he reviewed the active work of the Chapter. Then William Reed, assistant cashier of the National City Bank of New York, spoke in a very interesting manner of the trade prospects and conditions in South America. Mr. Reid said in part:

"The obstacle that has seemed to present an unsurmountable barrier to the pursuit of natural business in foreign countries, has been the absence of banking facilities and of competent assistance. In almost every city of any consequence there will be found branches of German and English banks, organized for profit, of course, but who have always realized that profits come from the promotion of commerce, and who, therefore, furnish the machinery necessary to its safe conduct. But there have been no American banks. In addition to the difficulty of selling goods, shipping them properly and all the other difficulties of the situation, has been added the requirement to execute invoices and accept payment in a foreign currency thus injecting a further element of risk.

"Our chief difficulty and what I want to particularly emphasize to you bank men is that of obtaining men. We know the business is there; we know how it should be approached, but it is extremely difficult to get men with sufficient self-reliance and education to undertake the work.

"I heard of a case where an order was given for a large quantity of axe heads. It was stipulated that each head should be dipped in paraffin and wrapped separately in oil paper. Some smart shipping clerk couldn't see the necessity for the wax and didn't do it, although it was charged in the price. The result was that passing through the tropics the steel sweated and later dried off, leaving a coat of rust. The whole shipment was refused.

"In closing, what I plead to you bank men is to realize that the great South America, inhabited by a very old civilization, yet backward in many respects, but with a soil marvellously fertile, is not at the land's end. It is next door. We cable to and fro every day just as we do to London. Its vast forests and mines contain fabulous wealth. Its enormous plains can sustain cattle enough to feed the rest of the world. The people are kindly and ready to meet us half way. But what does all this mean to us, to you, bankers of Hartford? It is positively vital. Review the events of the past two years. Deposits have reached unprecedented figures. A sort of prosperity is sweeping over the land. Every man who wants to work can do so. Now standards of living are being set up. Wages are being increased. Our gold reserves are piled high. The whole world is envious of our enormous wealth. When this horrible war is over, the nations whose industries have been prostrated will make the most strenuous efforts, supported by paternal governments, to get back what they have lost. There will be a concerted attack upon our financial fortifications, and unless we are in a situation by means of a large foreign trade to protect our reserves, they will begin to dwindle, with the result that loans will have to be restricted, business will become cautious, labor will again become unrestful, and we will sink into one of those periods of depression so much to be regretted. And it won't be psychological either. Mind you, I am not an alarmist. I am extremely hopeful and have an abiding faith in the ability of the American people to rise to any emergency. But our ability to do so will lie in our being able to see ahead and I believe that this matter of urging our people to see this necessity is of prime patriotic importance."

Mr. Lewin Hewes, president of the Standard Fire Insurance Company, spoke in a lighter vein, giving his customary and quite characteristic views on the science of things in general.

"Banks are not difficult," he said. "All you have to do is build a fine up-to-date fireproof building like the Hartford Trust Company, owning a corner on Central Row. In the early days things were not adjusted so nicely. The Dutchmen in New Amsterdam adopted the customs of the Indians, and used oyster shells for currency. Up here in New England the Puritans, having in mind the customs of the old country, adopted gold as a medium of exchange. When Yankees went to New Amsterdam they bought goods and paid for them in oyster shells. When the Dutchmen traded with the Yankees they paid in gold. After a while the Dutchmen had all the oyster shells, the Yankees had all the gold, and so it has remained ever since.

"How do they do things nowadays? Why, if you go into a bank to borrow money the president tells you that there isn't any money—it all went down on the *Lusitania*, or anything else that seems appropriate at the time. However, as you are a good customer, if you have \$10,000 in good government bonds, he will lend you \$1,000.42. Then you find out that he will take off an amount for discount, so you finally get about \$775. The difference between discount and interest is that with discount you pay interest on \$1,000 and get \$775. Then, too, you find out that every month has at least thirty-one days and most of them—if you have a really good banker—have thirty-two.

"But how is it when you have money to invest? Your banker will tell you that money is a dross on the market—that he has quantities of it in New York at one and one-half per cent. As you are a good customer, however, he will take your money at two per cent. Then you find out that you don't get your interest till the end of the year, and that the months have an average of only twenty-nine days each.

"Gentlemen, I give you the toast of Rip Van Winkle: 'May you and all your families live long and prosper.'"

W. C. Cornwell, editor of the *Bache Review*, was the next speaker. Mr. Cornwell commenced his address by defining Wall Street, which he said was not alone the Stock Exchange, "but the combined force of great banks, enormous capital, unlimited energy and high power financial brains, which has made possible the wonderful development of this country's greatest resources." Continuing, he said:

"If we weigh carefully the situation, we find that practically the only basis of our present prosperity is the unnatural stimulus of the war's demands. The country is working under forced draft and the question of continuance of the present rate of speed is a question of how long this one particular kind of fuel will last.

"Under the momentum of these times it may be possible for us to 'get somewhere'; to arrive at a point where, when the heat of war subsides, the machinery will be in perfect order to meet other conditions, which will then be as abnormal as they are now, but with the grave difference that they may be against us instead of heavily in our favor. To bring about this result we need the highest wisdom in financial operations, in legislative actions, and in individual conduct. Capital, labor and law must each do its part.

"The question of preparedness has unfortunately gotten into politics, and a twisted and illusive aspect has been given to the subject by a few newspapers and a number of politicians. The fallacy of their misleading arguments cannot fail to be shown up, and the good business sense of the country will, sooner or later, crush out the sham campaign against precautions which ordinary judgment dictates.

"A large majority of the business men of the country, and the men who with them do the thinking for the whole country and whose views must eventually prevail, are unhesitatingly, and are beginning to be insistently, for the broadest possible and most efficient program to place defense of the nation upon the most modern and powerful plane of effectiveness.

"The heart of America is as loyal today as ever in its history. There are two things that this nation wants more than any others, peace and honor. It does not want one without the other. But if it can only have one of the two, then it will unhesitatingly choose honor.

"Capital is facing the tremendous pressure of inflation. Thus far its conduct, as a whole, has been beyond criticism. Labor is up against the temptation of large and growing wages, which breed greed and dissatisfaction. Law or legislation is, as it always has been, except in grave crises, unreliable, uninformed and undependable. These somber considerations concern the present only as a reminder that the golden era at hand is transient and that we must now, in times when everything is propitious, make ready for periods when the tide may turn against us. Preparedness is one of the lessons of the day."

Robert H. Bean of Portland, Me., our National Institute president, spoke of the position of the Institute as a chief factor of modern financial education. Mr. Bean said that the Institute was prospering splendidly throughout the country and meeting able support from all bank men. Mr. Bean concluded his historical and statistical remarks amid the plaudits of his audience.

HOUSTON

By Louis H. Kennon

Houston Chapter is grateful to Congressman Joe H. Eagle for a handsome library which he has just presented to us. This library contains forty-three volumes and deals with the different phases of banking and financial legislation of the foremost nations of the world. These books are by men who are recognized as authorities on the financial questions of their various countries. We feel that we now have a nucleus around which we can build a library of which any organization might well feel proud.

The Texas Bankers' Association convenes here in May and our Chapter is planning to assist in entertaining them. While we have not decided definitely on the particular mode of entertainment that we will contribute, we feel sure that we will be able to render a good account of ourselves, in spite of the fact that "badger fights" will be forbidden.

Our "Thrift" movement seems lagging somewhat at present, but we are only resting on our oars. We have been instrumental in starting savings banks in several of the city's schools and have quite an elaborate campaign planned, which we hope to carry to a successful finish in the near future.

We were loath to accept the resignation of our secretary, H. S. Gordon, who, owing to the pressure of business matters, felt that he could no longer serve the Chapter in that capacity. The writer has been chosen to fill out the unexpired term, caused by Mr. Gordon's resignation.

INDIANAPOLIS

Indianapolis Chapter of the American Institute of Banking was formed at a meeting of bankers and bank employees at the Claypool Hotel, March 24. Andrew Smith, vice-president of the Indiana National Bank and secretary of the Indiana Bankers Association, was elected president. Other officers chosen were vice-president, Louis F. Elvin, auditor of the National City Bank; treasurer, Roy Sahm, secretary State Savings and Trust Company; secretary, B. M. Rhodehamel, of the Continental National Bank.

The meeting was called by M. W. Harrison of New York, assistant educational director of the Institute, who came here to effect the organization of a Chapter. The purpose of the body is to provide educational facilities for banking circles, and it extends to employees as well as the officers of banks. A two-year course of instruction is given by the Institute, which issues certificates of graduation to those who take the instruction.

Members of the Chapter hold a series of meetings during the year, at which lecturers speak on the various problems of banking. Forty-one employees of banks in this city were enrolled as charter members of the Chapter last night. It is expected that this number will be increased before the next meeting of the Chapter, which will be held April 4.

KANSAS CITY

By J. B. McCarter

Our class work continues without that abatement in interest which usually characterizes the closing days of a year's work. While it may be that the attendance is a little less than the maximum reached during the year, the apparent results of the work in class have never been greater. This is due, perhaps, to the fact that those in attendance now are the ones who have consistently followed the course throughout the year and have made their investment in time and work pay. It is pleasing to note that these represent a large proportion of those who started out the first of the year with such good resolutions.

The law class is well into the study of "Negotiable Instruments," and a visit with this class while in session will convince anyone that they are making their time count in the gaining of that equipment so necessary to the efficient business man and banker. Some very lively discussions have been held in this class and under the leadership of Mr. Walker they have proven to be very profitable.

The graduate class has been taking up various subjects which are of interest to bank men. Two evenings have been devoted to a close study of the resources and productivity of Federal Reserve District No. 10. Mr. McNellis led a discussion on the agricultural importance of this district and gave us facts and figures which even surprised us. While we have always known that the greatest item of our productions might be termed as agricultural, yet C. C. Jones in another discussion showed us that our mineral and oil products are by no means an insignificant item. The members of this class realizing that the JOURNAL-BULLETIN contains articles rich in information and that the ordinary reader does not give them the attention they merit, has decided to encourage the reading of this paper by giving one evening each month to a systematic study of its contents. The first meeting devoted to this purpose was held March 7 and proved to be very interesting and instructive.

The bankers of Kansas City are looking forward to the convention of the American Bankers Association to be held here this fall, and the members of the Kansas City Chapter expect to have a very active part in the entertainment of the visiting bankers at that time.

LOS ANGELES

By A. C. Hoffmann

The public affairs committee announces the perfecting of the advisory thrift committee, with J. F. Sartori, of the Security Trust & Savings Bank, formerly president of the Savings Bank Section, as chairman. This committee is composed of some fifty representative men from commercial, religious, educational and financial lines of activity and all have pledged their support and given their indorsement of the thrift movement, which lends considerable prestige to the campaign in this city. The Los Angeles Clearing House Association as well as the Chamber of Commerce have passed resolutions indorsing this work, and other prominent clubs of this city will undoubtedly do likewise in the very near future, conspicuous among which is the Advertising Club. Another meeting of the public affairs committee will be held within the next few days, and while the future steps have not been definitely decided upon, they probably will embrace the arranging of talks by influential men before high schools, the Y. M. C. A., and in other centers; the offering of prizes for best thrift plans and results, and perhaps community thrift advertising.

Los Angeles naturally is a thrifty community as regards financial matters, as evidenced by recent figures compiled by the Chamber of Commerce. The chamber estimates the population of this city at 550,000, and the figures show that there are 253,876 open accounts in the twenty-eight savings banks of Los Angeles, which does not include postal savings, building and loan associations, and similar institutions of thrift. The total savings deposits amount to \$100,531,380.04,

which is an average of \$529.21 for each account. According to their figures the state of California ranks second in average savings per capita, with Massachusetts first, New York third, and Pennsylvania fourth.

At a recent meeting of the board of governors the appointment of a board of consuls was taken up and the matter will be presented at the next monthly open meeting of the Chapter, which will be held Friday evening, March 24, as well as important matters relative to the election of officers for the coming year.

The educational committee is already considering plans for next season. This being our first season we have conducted but one course, namely, the law course. However, we expect at least two hundred will pass the law examination and be ready for the banking course next season. In addition, a class in elementary banking is being considered in order to care for bank men of all ages and experience, so that there is a probability that three courses will be conducted here next season.

Apparently the announcement of Mr. McWilliam's candidacy for the presidency of the Institute has been received with favor in all parts of the country, and we are sure that all Coast Chapters will, with us, feel grateful if the presidency comes to the Pacific Coast next year.

MACON

By Arthur Branan

On the night of March 23 Macon Chapter had the pleasure of hearing Earnest C. Herring, one of our prominent attorneys, in an address on Negotiable Instruments, along the lines that we are now studying. We hope to finish our present term by the first of May, and we further hope that a large percentage of the young men taking the course will receive credit toward Institute certificates.

All of our members received information about the military training camp to be held at Plattsburg, N. Y., this summer, and a letter urging them to attend. It is hoped that some of them may do so, although it is quite a distance from home and a month is a little more time than we can spare at that time of the year.

Macon and Atlanta Chapters have combined to push the Thrift Campaign in the state of Georgia. They have divided the state into halves and each Chapter will see to it that every man, woman and child in its half of the state will hear something of the movement at some time during the year. So far, the work has progressed very rapidly. Maynard B. Smith, one of our live members, is chairman of our special thrift committee. Associated with him in this work are I. L. Rowison and R. F. Fincher. These young men are doing splendid work in their line.

MINNEAPOLIS

By Carroll H. Rose

C. W. Rowley, manager of the Winnipeg branch of the Canadian Bank of Commerce, who was active in arranging the \$75,000,000 loan to Canada, explained to Minneapolis Chapter at the March dinner meeting the effect of the war on his country. He said that Canada, far from being hard up, is in fact in a prosperous condition, but desires an extension of credit with the United States, from whom she buys more than the combined countries of South America.

Another angle of the conditions resulting from the war was presented by Theodore Elmer, formerly manager of the American College in Turkey. He told how the Turks are endeavoring to wipe out the Armenian race by massacre and exile. Mr. Elmer is assisting in collecting funds for the relief of Armenians.

We also had the pleasure of having with us at this meeting Milton W. Harrison, secretary of the Savings Bank Section, who outlined in a general way the Thrift Campaign, and answered a number of questions on this subject. His

visit served to give an impetus to our own work along this line. Arrangements have been made with the Y. W. C. A. to furnish them with speakers to talk on thrift and banking before employees of factories in the city. A. V. Gardner, Northwestern National Bank, C. P. Taylor, First and Security National Bank and C. L. Keith, Scandinavian-American National Bank, have so far been named for these talks.

The nominating committee, at the March dinner, submitted its list of nominations for officers and delegates for the coming year, each nominee having been considered very carefully. Additional nominations were made from the floor. Considerable interest is being taken in the election. The following men were nominated: For president, A. V. Smith, First and Security National Bank, and Robert Towle, Federal Reserve Bank; for vice-president, J. W. Groves, Minnesota Loan & Trust Company, and Trygve Oas, Scandinavian-American National Bank; for treasurer, N. B. Armstrong, Hennepin County Savings Bank, R. E. Blair, Northwestern National Bank, and Lawrence Olson, Scandinavian-American National Bank; for recording secretary, J. J. Fehr, State Deposit Bank, Eban Johnson, First and Security National Bank, and W. E. Neudeck, St. Anthony Falls Bank; for corresponding secretary, A. D. Hagg, Farmers and Mechanics Savings Bank, and C. Peterson, Union State Bank; for the executive committee, J. C. Thomson, Northwestern National Bank, H. L. Post, Northwestern National Bank, James Murphy, First and Security National Bank, and Clarence Knudson, Minneapolis Clearing House Association. Delegates to the National Convention were also nominated.

Another big event of March was the annual inter-city speed contest with the St. Paul Chapter which was held in the Merchants National Bank of St. Paul on March 4. The large number of Minneapolis members who took the trip to St. Paul enjoyed themselves immensely. The contest resulted in our St. Paul rivals taking eleven prizes to our nine. The six first prizes, however, were divided evenly between the two cities. A. H. Johansen upheld his reputation by winning for the fourth consecutive year the first prize in straight listing. He listed 250 checks in three minutes thirty-seven seconds. Other prize winners were Transit Machine, Eastern—Walter Knudson, Merchants National Bank, St. Paul; Transit Machine, Country—A. W. Hauge, Minnesota Loan & Trust Company, Minneapolis; Statement Machine—Harry McCleight, Merchants National Bank, St. Paul; Money Counting—R. E. Towle, Federal Reserve Bank, Minneapolis; Mental Addition—A. E. Turnquist, First National Bank, St. Paul; Check Writing Machine—W. J. Stutzman, Merchants National Bank, St. Paul.

The committee on the school for junior bank men, which was mentioned in the last issue of the JOURNAL-BULLETIN, have completed the preliminary work in connection with the course and the first class, composed of about thirty boys, has been organized. The class meets every afternoon from 2 to 4 p. m. except Monday and Saturday. The course is divided into two parts, a preliminary course and a cycle course. The preliminary course will be in the form of talks to the boys dealing with their relations to the business public and to their occupation, bringing out such points as the importance of team play and impressions made from personal appearance, business-like methods, promptness, courtesy, etc. The cycle course is subdivided into fourteen parts and contemplates a study of subjects such as uses of banks, drafts, promissory notes, railroad and express documents, post-office money-orders, business practice, departmental organization of a bank, elements of contracts, etc. The classes are being handled under the supervision of Prof. J. F. Ebersole. Mr. Sidney Patchin of the University of Minnesota will assist him, and the Chapter is fortunate in having obtained the services of these gentlemen. The course is, as yet, in an experimental stage, but as the work progresses new material will be added so that ultimately a very practical text-book may be prepared. It is estimated that each course will be completed in from two to two and one-half months, so that four or five complete courses can be given in a year. The preliminary part of the course will take about three or four days and the cycle course will probably require two months.

The annual banquet of Minneapolis Chapter will be held some time in April. The committee has not yet announced who the speakers will be, but from all indications it will be the largest banquet in the history of the Chapter.

NEW HAVEN

By Geo. R. Sterling

The first annual dinner of New Haven Chapter was held in the Hotel Taft, March 22. President Curtis, in his introductory remarks, told of the good results already obtained by the Chapter, and asked for the hearty support of all bank officials and directors. Hiram Bingham, of Yale University, professor of Latin-American history, curator of the Collections on Latin-America and director of the Peruvian Expedition of 1914-1915, in an informal address, spoke on "Characteristics of the South Americans of Today." Professor Bingham interestingly described the characters, customs and business methods of these people, and enumerated some of the personal qualifications necessary in our dealings with them. Large sums of American capital will be asked for to develop and finance South American industries, and a thorough understanding of all conditions will be necessary to obtain satisfactory results. Directors Wilson H. Lee and Judge Isaac Wolfe made a few remarks appropriate to the occasion.

Our Chapter has a membership of 204, and the fact that 150 members attended this dinner clearly demonstrates the interest shown in our work. Class members are showing a lively interest in the study of the Negotiable Instruments Law, and all are preparing for the final examinations on May 9.

NEW YORK

By James M. Squier

We note with genuine gratification and considerable pride that Los Angeles Chapter has nominated E. G. McWilliam for president of the American Institute of Banking—gratification because we here in New York know the man thoroughly as a sincere, capable, strong, conscientious man; and pride because it was in New York that he received his Institute training. We know that "Mac" has in an unusual degree the qualifications which a president of the Institute should possess, and New York Chapter wishes him Godspeed in his candidacy and bespeaks for him the earnest consideration of all Institute men.

By the time this issue of the BULLETIN is distributed barely a month's work remains before the final examinations for the year will be held and then another season will have been completed. This year has been one which was looked forward to with considerable trepidation by the officers of the Chapter because of the introduction of a new method of conducting our educational work and the consequent increase in our expenses. On the whole the results have justified the change and we are able to look back with pardonable pride at what has been accomplished.

The first of the Chapter's sections to cease its activities for the season was the Forum, which closed its work with a dinner at the Hotel Brevoort on Wednesday evening, March 29. About 150 were present and the dinner turned out to be one of the most enjoyable events of the year. Brief talks were made by President Seaborg, George E. Allen, educational director of the A. I. B.; Joseph A. Broderick of the Federal Reserve Board; F. W. Ellsworth, publicity manager, Guaranty Trust Company; William S. Kies, vice-president National City Bank; Thomas W. Lamont of J. P. Morgan & Company; William B. Law, president First National Bank, Philadelphia; Victor A. Lersner, comptroller Williamsburgh Savings Bank; J. A. Neilson, manager foreign department Brown Bros. & Company; Theodore H. Price of Commerce and Finance, and O. Howard Wolfe, assistant cashier Philadelphia National Bank. R. A. Philpot, chairman of the Forum, acted as toastmaster.

Thursday, May 11, has been set as the day for our annual meeting, and also for our annual debate with Hartford Chapter. We are always glad to see the Hartford boys, for they seem to be the only ones that we can defeat at the debating game, and then they always take it so good naturedly, too. The nominating committee in making their report have selected Joseph A. Seaborg for our president again. We are all aware of the excellent work of Mr. Seaborg during the past year, and the committee in selecting him again for the chief office has certified that the good work will be pushed to a finish and we may well expect that the accomplishments of the next year or so will indeed be great.

On Tuesday evening, April 4, Prof. Hastings Lyon of the Columbia School of Commerce, gave the first of a series of eight lectures which he is to deliver on the subject of investments. Professor Lyon is probably one of the best known authorities on this subject in the city and these lectures will undoubtedly be particularly interesting to any of our members who did not have an opportunity to take the full first year course.

The Foreign Exchange Section continues to attract attention on alternate Monday evenings. At their last meeting on April 3 the subject under consideration was "Export and Import Credits."

The Seaside Section, which was started last year as an experiment, has proved such a success that it is now on a firm footing and the members are now busy drawing up plans for the coming summer. It has been decided to take quarters at Edgemere, L. I., again this year, where it was so successful last season. It has been found necessary to engage much more spacious quarters, however, and all the comforts of home will be included with the premises this year. Many of the members last year used the camp as a summer home, while still others found it possible to spend their vacations there. Certainly no more enjoyable prospect for a vacation at such a small expense can be imagined.

We have pleasure in announcing that the following gentlemen, both loyal workers of the Chapter and the Institute at large, have moved a step further up the ladder: A. F. Gentes, who was recently elected secretary of the Broadway Trust Company, has relinquished that position to take the assistant cashiership of the Philadelphia National Bank. J. B. Birmingham, formerly with the Citizens Central National Bank, and chairman of our educational committee this year, has accepted the position of transit manager with the Atlantic National Bank.

NEW ORLEANS

By Norbert B. Hinckley

Classes are well attended and membership is increasing satisfactorily. Commercial law examinations were taken by twenty-five in the early part of March. Professor Fortier has not announced the result as yet, but everyone seems hopeful. We are now studying negotiable instruments.

We have the pleasure of hearing Frank V. Moise, of the Credit Department of the Whitney Central National Bank, talk on the "Credit Workings of a Bank" on February 13, and at our regular meeting in the same month James J. McLaughlin, a prominent local attorney, gave a very interesting address on "City Finances."

During the month of April we will have three prominent speakers address us, viz.: L. M. Pool, vice-president of the Hibernia Bank & Trust Company, on "Louisiana Banking Laws; Monte Lemann, on "Liability Insurance," and James R. Stevens, Clearing House Examiner, on "Clearing House Examinations."

The thrift movement is still going forward. During the past month speakers have visited forty-six of our public grammar schools and six evening schools, preaching the gospel of thrift. We are now preparing suitable talks for mothers' clubs, fraternal and labor organizations, and expect to invade these fields very shortly. Nomination of officers will take place at our regular meeting, April 24.

OAKLAND

By Doremus P. Scudder

The educational classes are rounding out to completion and preparations are being made by the students for the final examinations, which will be given about the last of April.

The annual election of officers again presents itself and candidates are getting busy with the usual campaign plans for the new term.

PHILADELPHIA

By David Craig

At a meeting of Philadelphia Chapter, held Friday evening, March 10, William A. Nickert was unanimously selected to be a candidate for the Executive Council of the American Institute of Banking at the Cincinnati convention. Mr. Nickert has been a member of Philadelphia Chapter since 1909, was granted an Institute Certificate in 1911, elected to the Board of Governors in 1912, elected President of the Chapter in 1912 and re-elected in 1913. He is well known in Institute circles throughout the country and his experience and sound judgment would be of practical service in meeting the responsibilities of administration that are increasing with the growth of the organization.

The fifteenth annual banquet of the Chapter, held in the ballroom of the Bellevue-Stratford, March 4, was a fitting climax to a most successful year in Chapter work. Covers were laid for 854, while about one hundred applications for tickets had to be returned because of the limited size of the banquet room. The hall was beautifully decorated with flowers and flags, while the presence of the 200 ladies, who occupied the balcony boxes, gave an "artistic" finish which attracted considerable attention. Every detail of the arrangements was carefully and efficiently prepared.

In presenting the toastmaster, President Chaffee briefly told of the remarkable growth of the Chapter since its organization in 1901 with a membership of fifty-four to a present enrollment of 1,200. Reviewing the educational development of the Chapter and the Institute he made this significant statement: "The American Institute of Banking has impressed upon its members the fact that real ambition is not just to long for a better position but to work hard and study thoroughly that they may qualify for high places."

Joseph Wayne, Jr., president of the Girard National Bank, was the toastmaster. In his introductory remarks Mr. Wayne paid high tribute to the accomplishments of the Chapter, and complimented the members for preparing themselves by the study of banking conditions to fill offices of trust and honor. "Preparedness," he said, "is the keynote of the American Institute of Banking."

John J. Arnold, vice-president of the First National Bank of Chicago, delivered an inspiring and interesting address on "Our Domestic and Foreign Relations," which in revised form will be published in the "Foreign Banking Course of Study" running in the JOURNAL-BULLETIN.

The next speaker was the Rev. Charles Wesley Burns, who chose as his topic "A Bit of Dry Toast." His plea was for a moral, a spiritual and a racial preparedness, and the address interspersed with numerous witticisms was entertaining and uplifting.

We had as guest of honor Robert H. Bean, president of the Institute, who in a few well chosen sentences told of the development of the association. Dwelling upon the educational features of the Institute Mr. Bean said: "We teach our members to solve the problems which confront them in a practical way. We make of them men of energy and ability. I know of no city in the country where the educational program ranks higher than in Philadelphia, or where results are more gratifying. You members of the Institute are preparing here a dividend that is inestimable in its value."

As always, a feature of chief interest in the dinner was the opportunity afforded our members to rub elbows with

the bank officers of Philadelphia and other cities, and strengthen friendships with visiting members of other Chapters.

Our educational classes are entering upon the final work preparatory to the examinations. The number of members taking part in the educational work this year is the largest in the history of the Chapter, and the result, it is expected, will be a good proportion of graduates, notwithstanding that the law class was divided, making it necessary for students to attend fifty sessions instead of twenty-five, to complete the course. The debate and public speaking work has been interesting and valuable.

On March 17 a public speaking contest was held in the Chapter rooms, the participants in which were members of the debate and public speaking classes. The winner announced by the judges was Ralph D. Withington, whose topic was, "Our Future Relations with South America." The other contestants and their subjects were as follows: Paul B. Detwiler, "Some Aspects of European Financing after the Present War." Robert U. Frey, "The Second United States Bank and Its Lessons for the Operation of the Federal Reserve System." Arthur R. Elmer, "New York as a Monetary Center." Arthur H. Eyles, Jr., "The Exchange Problem." Francis W. Westwood, "Farm Credits." All of the speakers demonstrated the progress which Chapter men are making in Public Speaking. The subjects were creditably handled and showed a keen grasp of the subjects. The men talked straight from the shoulder, and not one of them used notes. Public Speaking is an advanced step in Chapter work and its broadening influence is shown in the topics discussed in this contest.

PITTSBURGH

By P. F. Tessmer

Pittsburgh Chapter attendance at both Tuesday and Thursday evening classes in banking is continuing unusually good, and we expect the crop of graduates this year to be a big one.

In line with the general feeling in favor of preparedness all over the country Pittsburgh Chapter has inaugurated a membership campaign. President Mullen has his committee hard at work and they have offered a free trip to the next A. I. B. convention for the highest number of applications brought in by any member. This is a big inducement and should bring good results. We want at least 300 new members, and if President Mullen can infuse his enthusiasm into the workers it will be easy.

The first general meeting in April, Tuesday evening, April 4, will be ladies' night and a very elaborate program has been arranged. Four of the best vocalists in Pittsburgh have been engaged, besides several others and a pleasant evening is guaranteed.

PORTLAND

By Helmer Pierce

Arrangements for the Thrift campaign to be conducted in Portland, Ore., in conjunction with the national movement, have been completed, and for the information of our readers we give below an outline of the plan prepared by the Thrift Campaign Committee: The Thrift Campaign Committee appointed by Pres. R. M. Dobie, of Portland Chapter, to conduct the national thrift campaign in Oregon, in conjunction with the Chapter, is as follows: T. H. West, Ladd & Tilton Bank; L. R. Alderman, superintendent of Portland Public Schools; Charles E. Cochran, railroad employee; W. G. Harrington, attorney at law; J. L. Hartman, secretary Oregon Bankers Association; J. J. Sayer, financial editor; Rev. Edwin V. O'Hara, assistant pastor Cathedral of the Immaculate Conception; E. H. Sensenich, cashier Northwestern National Bank; W. F. Woodward, president Woodward, Clark & Company; Rev. W. W. Youngson, pastor Rose

City Park Methodist Church. With a view of carrying on the Thrift work along the broadest lines, the committee has prepared the following outline and is enlisting the co-operation of local clubs and organizations.

The National Thrift campaign is a movement to develop habits of Thrift in all activities of life to the end that we may enjoy a larger measure of happiness and prosperity. The movement is timely in that 1916 is the centennial year of the establishment of the first savings bank in the United States, an event deserving of special celebration. This campaign is nation wide and is being conducted simultaneously in sixty-two cities of the United States by the local Chapters of the American Institute of Banking. The movement is an educational one, through churches, schools, social, industrial and fraternal organizations, newspapers, including all advertising media. It is desirable to emphasize:

First. Thrift in developing better homes and home life.

Second. Inculcation of home thrift with special reference to (a) the family budget—household efficiency; (b) the personal budget—personal efficiency; (c) thrift in meeting an obligation; (d) thrift in purchasing—articles of food, clothing and necessities; (e) thrifts in the use of the child's spending money and idle moments; (f) habits of punctuality—most purposeful use of time and energy.

Third. Thrift of education with special reference to (a) the necessity of insuring each child an adequate education and (b) the importance of persuading adults to take advantage of all educational opportunities in their profession or business.

Fourth. Thrift of investment—encouraging the conservation of early earnings in preparation for declining years.

Fifth. Thrift in utilizing waste land areas in all communities—including the beautifying of railway approaches into the city.

In the nature of preliminary activities, we suggest:

First. The indorsement of our proposition at the outset through all organizations of our city.

Second. A special effort to reach the homes through our churches, Sunday schools and young people's societies.

Third. A campaign of publicity through the newspapers (one suggestion is to offer suitable prizes for the best articles presented by the people of Oregon as to how they expend their earnings, how they bought their home, or how they saved their first \$100).

Fourth. Work in conjunction with the school authorities toward the carrying out of a plan of school co-operation in making and disposing of articles and toys made in our manual training schools and school garden products.

Fifth. A state-wide movement in co-operation with all banks in Oregon.

This movement has the hearty support of the churches, industrial and civic organizations of Portland. Invitations have been accepted by several leading associations to co-operate with our Chapter and develop particular phases of the program outlined, as follows: Section 1, itemized above, all church organs. Subdivisions a, b, c of section 2, Credit men's association. Subdivision d, Mothers' congress; Subdivision 2, Parent teachers' associations. Subdivision a of section 3, Rotary club; Subdivision b, Progressive business men's club. Section 4, American Institute of Banking and the banks. Section 5, Portland realty board and the transportation club.

In adopting the foregoing program the committee does not expect to work with the object of immediately increasing the number of savings accounts in our banks. Rather, it is believed that by following a broad and systematic policy of education in thrift the results ultimately achieved will be more permanent and far-reaching.

PROVIDENCE

By E. A. Havens

Meetings of Providence Chapter during the present season have been of an exceptionally high standard, not only as to the subjects considered, but as to the ability of the speakers who have discussed these subjects. Our gathering

on March 15 was of particular interest, covering a consideration of a most important financial theme and giving a first-hand glimpse of conditions in Great Britain and some of the colonies at the outbreak of the European war. E. Tudor Gross spoke at length on "Real Estate as an Investment" and brought out the close relation between banks and the proper development of real estate. S. Foster Hunt followed Mr. Gross on the "Impressions of the British Empire at War." Mr. Hunt arrived in England during the first week of the war and subsequently traveled to South Africa, Australia and India. Sufficient time was spent in each of these countries to give the speaker a good idea of the loyalty of the great mass of colonists to the home country. President J. Harry Marshall presided over the meeting with his usual dignity and grace.

A pleasing announcement was made that the annual banquet of the Chapter will be held on May 4. This event will be given in conjunction with the Bank Clerks Mutual Benefit Association, as has been our custom for some years.

ST. LOUIS

By Arthur W. Hail

The recent examination in commercial law, taken by the students in our law class, has proved most satisfactory from every point of view. The enrolment in the class this session was much larger than ever before, the number of students sitting for the examination being far in excess of any prior year. Over ninety-one per cent. of the regular attendants submitted answers to the questions of our examiner, and more than ninety per cent. of these students made the necessary percentage. This splendid showing is very encouraging to the members of the Chapter, not only because our membership has increased and the studies undertaken with evident seriousness, but particularly as our efforts to create individual interest in the classwork appears to have borne good fruits, as evidenced by results.

SAN FRANCISCO

By E. V. Krick

The classes are now well advanced in the second term of the year's work and are showing a continuance of that interest and enthusiasm which was so marked throughout the first term. The examination held the end of February in the law course was taken by twenty-eight of our members, twenty-six of whom passed. The Spanish classes have just completed their initial term of six months. The instruction will in all probability be continued for an indefinite period. These classes are now conducted entirely in Spanish and it is a revelation to see the progress made in such a short time. The instruction is taking the form of discussions (in Spanish) of commercial subjects, commercial geography, etc., as related to trade and conditions in South America. The commercial language of Latin-America is taught in preference to the pure Castilian Spanish, as the latter is seldom heard and is unfavorably received.

The merits of this educational work are being constantly demonstrated by the promotion of our Institute men. We have the pleasure of announcing the advancement of one of our governors who for several years has been an actively interested worker in the Chapter. James D. Lowsley, of the First Federal Trust Company, has been elected cashier of the First National Bank of Santa Barbara. Mr. Lowsley's preferment created a vacancy upon our board of governors, which has been filled by the appointment of R. S. Barber of the Union Trust Company.

During the past few months a committee on military training has been working quietly but actively to ascertain the advisability and possibility of forming a military company to be composed of bank men. This committee, after procuring an expression of opinion from each of the various bank presidents in San Francisco, deemed it advisable to

set apart a night on which the matter could be properly placed before our members. Wednesday evening, March 8, was therefore so set apart. The meeting was well advertised as "Preparedness Night" and resulted in an attendance of nearly one hundred. The committee, consisting of M. P. Lillenthal, L. R. Cofer, John Clausen and John S. Curran, after having taken up the question with army officials, recommended that the most feasible thing to do was to organize a company of coast artillery under the National Guard of California. Brig.-Gen. C. W. Thomas, Jr., of the National Guard, was the speaker of the evening. General Thomas discussed the subject fully, enumerating the needs, the benefits and the hardships of such company. This address was followed by several of the bank men, who spoke strongly, urging the formation of such a company. Application cards were circulated and a number of signatures obtained. At present there are about forty prospects, including those already signed up, and it seems quite probable that a company such as is desired will be formed among the bank men.

The same sort of energy which motivated the military training question has been developing the thrift campaign. The talks before the schools and business colleges are being continued and every opportunity is being taken to place our members before gatherings of this kind. A comprehensive series of talks are also being delivered in the Y. M. C. A. Auditorium, to which the general public is invited. The accompanying list will give some idea of the scope of the subjects discussed: March 9, "Money and How to Use It," E. W. Wilson; March 16, "Savings Banks, a Form of Insurance," William A. Day; March 23, "Rural Credits," J. B. McCargar; March 30, "Real Estate Values," John Ginty; April 6, "Bonds and the Small Investor," E. R. Elliott; April 13, "What the Bank Wants to Know When You Borrow," R. A. Newell; April 20, "Itemized Living Cost," Charles J. Crary; April 27, "Federal Reserve and Other Banks," Russell Lowry; May 4, "United States as the World Banker," John Clausen; May 11, "Preparedness," Dr. A. H. Giannini. Thus far the attendance at these meetings has ranged from 200 to 500 and if success can be measured in terms of interest displayed, this work has already attained that goal.

WASHINGTON

By John A. Petty

At the regular meeting of Washington Chapter, March 2, twelve members were presented with the Institute certificate, as follows: Charles T. Beaumet, P. A. Brunger, Fred L. Moore, Adam Steilmetz, A. C. Muddiman, B. W. Royce, Roy L. Neuhauser, John A. Petty, A. A. P. Savage, J. J. McDonald, Ross E. Pollock, Theodore J. Moore.

On March 13 Prof. H. Parker Willis, secretary of the Federal Reserve Board, who has been granted a leave of absence to become president of the Bank of the Philippines, addressed Washington Chapter on "Banking Problems of 1916." We have had the good fortune of being closely in touch with Professor Willis and his advice and formal talks to the Chapter have been of invaluable benefit. Being an ardent supporter of the Institute and its idea, Professor Willis leaves us with our best wishes for his continued success.

X. Y. Z.

By Everybody

"STUDIES IN ENGLISH" is a simplified text-book on grammar, composition and speechmaking, reinforced by practical

exercises to be written by students and corrected through comparison with a key containing the same exercises in proper form. Clearness and force, as well as correctness, are cultivated. Technicalities and superfluities are avoided. Such self-education costs \$1. Correspondence Chapter, A. I. B., 5 Nassau Street, New York City.

HEALTH THRIFT.—R. M. Crane, in Denver Chapter *Bank Notes*, says: "We have heard and read much in the last few weeks about thrift. The importance of saving cannot be emphasized too strongly. But in the effort to save money we are apt to waste health. Of the two assets, which is the more valuable, health or wealth? Why not a little sober reflection about health thrift? The strength with which the average man is blessed in early manhood may be dissipated in many different ways. It may be squandered in fast living. On this danger it is not necessary to dwell here, for the course and its consequences are well known. A man's strength may be wasted by inaction. Of this it is not necessary to speak here, for few men in this age are lazy. One's health may be injured by inattention to many of the laws of hygiene. This is something which touches us all very closely, but it is a subject which should be handled by one familiar with it. There is, however, one way in which many of us are prone to dissipate the best of our assets, with which this article will deal briefly—overwork. A few years ago a young man said, in the writer's hearing, 'I am working fifteen hours a day. I am young and strong and it does not hurt me. I am determined to make a success in life, and to make it in the next few years.' He was warned many times by friends that the course he was pursuing would be unprofitable in the end, but he laughed at the warnings. He had good health, a good education, a host of friends and golden opportunities. With dogged determination he stuck to the course he had mapped out for himself. Danger signals appeared, such as sleepless nights and nervous spells of great intensity, but he refused to heed these signals. Because he had lived a clean life he was able to stand the pace longer than most men could have done. Today he admits that he was wrong. At the age of thirty-five, when he should be in his prime, he is conscious of a slowing-up of all the equipment, physical and mental, with which he set out to win a good place in the world. He has many friends, but they cannot bring back to him the extra seven hours a day for the last ten years spent in labor instead of recreation. He has saved some money, but he cannot purchase sleep with it in the many nights when sleep does not come to him. He has rounded out his early education by a few years of contact with the men who are doing things in the world, but his education and his experience will not carry him where he wants to go, because the capacity of the machine has been weakened by the years of strain. A 'Thrift Campaign'? Yes, by all means. Save your money. Also SAVE YOUR HEALTH."

SAVINGS BANKS IN LIBERIA.—Consul-General Curtis to Liberia is responsible for an interesting account of banking in that part of the world. "There are only two banks in Liberia: the Bank of British West Africa, Ltd., a British institution with head office in London, and the Deutsche Liberia Bank, a German institution with its headquarters in Hamburg. Both of these concerns open savings accounts for depositors. There is no supervision of banks by the government of Liberia. The number of depositors and the amount of deposits are regarded as private information and not given out to the public. A limited amount of advertising is done to secure depositors. Thrift is entirely an individual trait and no means have ever been employed by the government to stimulate it."



BANKERS HEALTH COMMISSION

THE BANKERS HEALTH COMMISSION is a corporation conducted without profit for the purpose of (1) promoting physical culture designed to secure healthfulness and increase efficiency among bank officers and employees; (2) providing health resorts where invalid bankers may obtain suitable accommodations on favorable terms; (3) furnishing information regarding personal and public hygiene. The officers of the Commission are Edmund D. Hulbert, chairman; Alfred M. Barrett, vice-chairman; Continental and Commercial Trust and Savings Bank of Chicago, treasurer; Merchants Loan and Trust Company of Chicago, trustee of reserve fund; George E. Allen, 5 Nassau Street, New York City, secretary.

BUREAU OF INFORMATION

TAKE CARE OF YOUR TEETH

According to the United States Public Health Service there will be a falling off in the sale of store teeth in the future, and plates and toothless gums will be seen less frequently than formerly. This is due to the epoch-making discovery of the cause and method of treating what is known to the scientist as pyorrhea dentalis and alveolaris and to the layman as Riggs disease. This is a suppuration around the roots of the teeth and causes an inflammation which produces loosening and loss of the teeth. At one time or another practically everybody has Riggs disease. It is caused by a minute single-celled animal called the *endamoeba buccalis*. This malevolent parasite does its work in combination with the pus-producing bacteria or germs. The skillful teamwork between these two destroys the delicate membrane which surrounds the roots of the teeth and causes them to fall out. The necessity of good teeth in order to have good health has been recognized a long time, but the scientists of our country have only recently worked out the relationship between decay of the teeth and Riggs disease on the one hand, and rheumatism, serious heart disease and high blood pressure on the other. So firmly have these facts been proven that the modern up-to-date physician begins the treatment of such diseases by an inquiry into the condition of the teeth and their sockets. If these are found to be diseased, the condition is cured before the treatment goes further.

The discovery of the cause of Riggs disease is, therefore, of the very greatest importance. Just as soon as the cause of Riggs disease was found out the search for the cure began in earnest. It had been previously discovered that the use of ipecac would cure the diseases which are caused by infection of the intestine with endamoebae. From this it was deduced that a similar treatment would cause the destruction of endamoebae in the mouth. This was found to be the case, and emetin, the form of the drug used, is now administered by physicians for the cure and prevention of the disease. It sometimes takes a considerable time to get rid of all of the malignant germs in this way, but the results which have been obtained have been remarkably good. The treatment is both local and general. In the matter of preventing mouth disease, it is important that the mouth be cleaned several times a day, and that a dentist be visited frequently to remove tartar and the yellowish matter which accumulates along the inner edges of the teeth and between the teeth.

STAND UP STRAIGHT

The first essential in the avoidance of tuberculosis of the lungs, says the North Carolina *Health Bulletin*, is to keep the lungs strong, so that if the germs are breathed they can do no harm. One of the most important things in keeping the lungs strong is to keep the chest wide open so that the lungs can be properly used. If the body is drooped or stoops, or if the shoulders are allowed to drag forward (round shoulders), or if the head is carried forward instead of well back over the shoulders, the chest must be flattened, the breathing must be shallow, and the lungs, not being freely used, become weak. It is in this type of chest that tuberculosis usually begins. The consumptive is usually narrow chested, with drooped shoulders and with the head craned forward. While the development of a strong, well formed chest is one of the most important factors in preventing tuberculosis, the same thing is to be desired if the disease has once started. Not only should we live in the open, but we should stand up straight and learn to "throw a big chest," so that the lungs can grow strong and the fresh air be taken in. The runner, the singer, or anyone who is obliged to make sustained effort is taught to stand and sit with chest high so that the lungs can be used to the best advantage, and if everyone would do the same thing there would be less tuberculosis because there would be fewer weak lungs.

WORTH KNOWING

Dr. J. W. Schereschewsky of the United States Public Health Service gives the following practical prescriptions:

First—Don't overeat. Too much food clogs the intestines, generates poisons which the body finds difficult if not impossible to throw off, and in general has the same effect on the vitality as banking a furnace would have on a fire.

Second—Don't drink booze; drink pure water instead. Alcohol lowers the mental efficiency, poisons the nerves, impairs the body resistance to infectious diseases and tends to degenerate the arteries. This indictment of alcohol is amply substantiated by scientific researches.

Third—Sleep with your windows open. The lungs throw off carbonic acid gas, which is poisonous. This gas must be allowed to escape from the bedroom or it

will be breathed in again, and thus the body will be poisoned over and over by its own waste products. Moreover, the lungs need the oxygen which is found only in fresh air.

Fourth—Bathe every day, regulating the temperature of the water by the effect which the bath has upon you. Bathing keeps the skin healthy, reduces the number of germs on the body surface, acts as a tonic to the nerves which keep the blood in circulation throughout the skin. The skin circulation is the chief agent for regulating the body temperature.

Fifth—Always wash your hands before eating. The hands pick up millions of germs between meals, and these will surely get on the food unless they are washed off before you sit down to the table.

Sixth—Keep your mouth in good condition. Poor teeth not only prevent you from chewing your food properly, but also promote a foul, germ-laden condition of the mouth, which will infect all food and thus tell seriously upon the general health.

Seventh—Take a walk every day. Rust attacks unused machinery and sends it to the scrap heap years before its time.

Eighth—Don't worry over things you can't help, and see that you don't have to worry over things that you could have helped. Worry brings on neurasthenia, indigestion and poor nutrition.

BRIGHT'S DISEASE

The majority of instances of Bright's disease, says Dr. William Brady, are of the latent or insidious, chronic type, accompanied with a persistently high blood pressure and a gradual encroachment of arterio-sclerosis, or hardened arteries. Overwork, overeating and the "strenuous" life have been associated with the cause of nephritis, or Bright's disease. But by far the most common factor is alcohol. In itself, alcohol, when swallowed in quantities larger than the body can consume or oxidize—and that means a glass of beer occasionally or a small glass of whiskey—is a direct irritant to the lining of the secreting tubules in the kidney. Further, any alcoholic beverage delays and weakens digestion, and a delayed digestion means additional autointoxication from putrefactive changes which the undigested food undergoes in the bowel. And then, the narcotic or brain dulling influence of an alcoholic drink causes the individual to work on his nerve long after normal fatigue would have led him to leave off and rest, because alcohol benumbs the normal protective sense of fatigue, yet does not actually remove the poisons or toxins which produce the fatigue.

Finally, alcohol irritates the lining of the stomach, like red pepper or any condiment, and stimulates an abnormally hearty appetite—an appetite which leads the individual to swallow more food than his system requires or can properly assimilate; and the excess of nutriment thus taken into the stomach simply goes to add to the burden upon the kidneys.

CALISTHENICS FOR BANKERS

EVERYDAY EXERCISES FOR EVERYBODY.—In the form of a poster eighteen inches square, printed on cloth, the Bankers Health Commission provides a set of five "Everyday Exercises" intended not to make athletes but simply to develop the fundamental functions of the body. No apparatus is required. No contortions are prescribed. Two or three minutes nights and mornings is all the time required.

EXERCISES FOR THE CHEST AND LUNGS.—In the form of a poster eighteen inches square, printed on cloth, the Bankers Health Commission also provides a set of three exercises designed to broaden the shoulders and expand the lungs. This set of exercises is particularly adapted to persons who work at desks.

COST.—The cost of each of the foregoing sets of exercises is fifty cents, payable to the Bankers Health Commission, 5 Nassau Street, New York City.

DON'T DOPE

Because you get well after using a certain preparation, says the *Progressive Farmer*, is no reason you get well because of it. When you are sick there are fifty chances to one that you will get well anyhow, and if you take a patent medicine, the chances are that you recover in spite of taking it, and not because of taking it. The recuperative powers in the body—the natural tendency to throw off disease, readjust our physical machinery, and get things back in good order—these are your greatest helps in getting well again, and a drug which is not needed by your system hinders and checks these recuperative powers—and if you use patent medicine, there are a hundred chances to one that you will get a drug that is not needed for your particular malady and your particular stage of that malady. Right living will make it unnecessary to drug yourself except at very rare intervals, but if you do get sick enough to really need treatment, better try a negro conjure doctor than take a concoction of drugs prepared by a man who probably has no medical training, has never seen you, knows nothing of your case, and whose mixture has ninety-nine chances of missing you to one of hitting. The negro conjure doctor will at least do you no harm; the patent medicine almost certainly will.

OVERDRAFTS ON HEALTH

We are all more or less familiar with the strict rules of banks in regard to individual credit, says Dr. Samuel G. Dixon, Commissioner of Health of Pennsylvania. We do not expect to be permitted to overdraw our accounts. But with our drafts on the bank of health the majority of us expect more liberal treatment. Overdraft, promises to pay, notes of hand we give with a prodigal spirit and growl mightily if called to account by Mother Nature for extravagance. Everyone begins life with a certain amount of capital in the way of

health and resistance to disease. This varies in different individuals according to the physique which they have inherited from their parents plus or minus the conditions under which they developed in their youth. We start life as men and women with this variable amount to our credit. When it has been expended we are through.

Every dissipation and every illness which means the expenditure of physical energy withdraws just so much from your health account. It is common enough to hear people who have been ill speak of being "cured," but physicians are well aware that this is a relative term only. Every serious illness has its effect upon the system, and even though we may feel no decided change, almost invariably there has been some diminution from normal. It is the same with exhaustion from excesses, physical and mental strain. Subject yourself to these trials and after a period of rest you may recuperate. However, if you continue, this recuperation will be slower and slower and eventually the overstrained machinery will break down. For this reason it behooves everyone to exercise reasonable caution and restraint in eating and the expenditure of physical and mental energy. Remember that the doctor cannot restore that which is already lost.

SOUP FOR BREAKFAST

Dr. Barnard, in the *New York Mail*, says that soup for breakfast may seem a great innovation, but it is full of merit, and many wise people use it. I don't object to coffee; I use it moderately myself, but I don't use it as a food. I know it has no food value. But it's hot and it stimulates me. A good soup full of meat extracts and vegetable flavors would not only stimulate me, it would nourish me. It would do all that coffee does and more, and it would be free from the bad effects that coffee has for many users.

If the unfortunates who are ruining their nerves by the excessive use of coffee will substitute a cup of well-made clam bouillon, strained mutton broth or good soup they will improve their health, give tone to their nervous systems and banish the idea that every day is "blue Monday." Some cheerful man who calls himself an "optimist" says: "To him who, on awakening, feels that life consists mostly of past with very little future, I slip this word of cheer—a cup of hot tomato soup for breakfast will all but bring a man back from the grave."

HOW COLDS ARE CAUGHT

The chief thing which enables some people to resist colds is a healthy circulation, says the New York State Department of Public Health in one of its bulletins. If the blood vessels of the skin and of the nose and throat do their work well the germs of cold will not gain a foothold. This is why people who live in the open air seldom have colds, while those who live in overheated

houses or wear several suits of underwear constantly catch them. A hot room weakens the reactions of the general circulation and causes the membranes of the nose to become congested, so that they furnish a fine breeding ground for bacteria. On the other hand, cool moving air stimulates and tones up the circulation. So the first rule for avoiding colds is to keep the house cool.

Cold water, like fresh air, plays an important part in skin training. A cold bath every morning, or at least a cold sponging all over, followed by brisk rubbing with a rough towel, is a fine tonic and a good preventive of colds. On the other hand, it is just as important to protect the body from undue cold, particularly chills of special parts of the body. The stimulus of cold air or cold water for a few minutes is followed by a warm glow, but prolonged chilling lowers the vital resistance and causes, indirectly, not only colds, but many other affections. Sufficient, though not too heavy, underclothing is an essential to keeping healthy in winter, and wool is by far the best material, since it is porous and allows the evaporation of moisture from the skin, while keeping in its pores a warm cushion of air around the body.

Physical exercise is another thing that keeps the circulation and the whole body healthy and enables it to ward off colds. Our bodies were built to do physical work and are only at their best with a little vigorous exercise each day. Moderation in eating and drinking are important factors in sound health. Colds in the head very often follow a lowering of vitality due to the evil effects of constipation or of overeating.

INSECTS AND DISEASE

In the *Bulletin* of the Montana Department of Public Health, R. R. Parker says that when we consider that insects are five-sixths of all living animals and that they are distributed to every corner of the earth we begin to grasp an idea of their potential possibilities as enemies of man. There is much that is spectacular in the study of this relationship between insects and man and no phase of the subject is more so than when it is studied from the standpoint of disease transmission. All of us know that malaria is transmitted by a certain kind of mosquito and that this disease cannot exist without this insect to spread it from man to man. By controlling the breeding grounds of this pest large areas formerly uninhabitable have been redeemed for man's occupation.

LENGTHENING LIFE

Prof. Irving Fisher of Yale University says that the science of disease prevention, if properly applied, can add fifteen years to the present average length of human life.

MEMBERSHIP CHANGES

REPORTED DURING MARCH, 1916

Alabama.....	Calera.....	Citizens Bank closed.
	Jemison.....	Union State Bank failed.
	Mapleville.....	Union State Bank closed.
Arizona.....	Gila Bend.....	The Valley Bank now at Ajo.
Arkansas.....	Lake Village.....	Citizens State Bank merged with Chicot Bank & Trust Company.
California.....	Coalinga.....	National Bank of Coalinga merged with First National Bank.
	Monrovia.....	American National Bank changed to National Bank of Monrovia.
	Redlands.....	Citizens National Bank consolidated with First National Bank.
	San Diego.....	Marine National Bank's business taken over by American National Bank and will liquidate.
	San Francisco.....	Anglo-California Trust Company, Exposition Branch, discontinued.
	San Francisco.....	Brown, Walker, Simmons Company, succeeded by Frank L. Brown & Company.
	Santa Clara.....	Santa Clara Valley Bank succeeded by the Bank of Italy.
	Taft.....	First National Bank succeeded by Producers Savings Bank.
Colorado.....	Crook.....	Bank of Crook closed.
Florida.....	Avon Park.....	Bank of Avon Park converted to First National Bank.
	Carabelle.....	Marine Grecian Bank discontinued business.
Georgia.....	Fitzgerald.....	Ben Hill National Bank closed.
	Forsyth.....	First National Bank liquidating.
	Senoia.....	First National Bank has liquidated.
	West Point.....	Bank of West Point closed.
Illinois.....	Decatur.....	Exchange Bank closed.
	Dolton.....	Dolton State Bank closed.
Louisiana.....	Jennings.....	State Bank & Trust Company merged with Calcasieu Trust & Savings Bank as Calcasieu National Bank of Southwest Louisiana.
	Lake Charles.....	Calcasieu Trust & Savings Bank merged with Calcasieu National Bank as Calcasieu National Bank of Southwest Louisiana.
Maine.....	Bangor.....	Kenduskeag Trust Company merged with First National Bank.
Massachusetts.....	Boston.....	Hyde Park National Bank succeeded by Hyde Park Trust Company.
Massachusetts.....	Boston.....	Paul Revere Trust Company absorbed by State Street Trust Company.
	Taunton.....	Bristol County National Bank in voluntary liquidation.
Michigan.....	Ann Arbor.....	State Savings Bank succeeded by State & German American Savings Bank.
Minnesota.....	Minneapolis.....	East Side State Bank merged with St. Anthony Falls Bank.
	Minneapolis.....	Savings Bank of Minneapolis closed.
Mississippi.....	Lauderdale.....	Bank of Lauderdale closed.
	Wiggins.....	Peoples Bank closed.
Nebraska.....	Broken Bow.....	Custer National Bank succeeded by Custer State Bank.
	Neligh.....	Neligh National Bank succeeded by Neligh State Bank.
	Trenton.....	First National Bank succeeded by Farmers and Merchants State Bank.
New York.....	Buffalo.....	Commonwealth Trust Company changed to City Trust Company.
	Groton.....	Mechanics Bank consolidated with First National Bank.
	New York City.....	Hamilton Pell & Company succeeded by Baker, Caruthers & Pell.
North Carolina.....	Fayetteville.....	Fourth National Bank closed.
North Dakota.....	Killdeer.....	Dunn County State Bank succeeded by First National Bank.
Oklahoma.....	Fort Towson.....	First National Bank succeeded by First State Bank.
	Kenefic.....	First National Bank consolidated with Durant National Bank, Durant.
	Tishomingo.....	Tishomingo National Bank taken over by First National Bank and liquidated.
Oregon.....	Corvallis.....	Benton County National Bank changed to Benton County State Bank.
	Sumpter.....	First National Bank in liquidation.

Pennsylvania.....	Philadelphia.....	National Bank of Northern Liberties taken over by Bank of North America.
South Dakota.....	Alcester.....	Alcester State Bank changed to Alcester National Bank.
Tennessee.....	Gallatin.....	First National Bank succeeded by First & Peoples National Bank.
	Pulaski.....	Citizens National Bank succeeded by Citizens Bank of Pulaski.
	Pulaski.....	National Peoples Bank succeeded by Peoples Bank of Pulaski.
Texas.....	Cumby.....	First National Bank succeeded by Guaranty State Bank.
	Fort Worth.....	Traders National Bank bought by Farmers & Mechanics National Bank.
	San Antonio.....	Federal Bank & Trust Company, in hands of receiver.
Washington.....	Kalama.....	Cowlitz County Bank closed.
Wyoming.....	Kemmerer.....	Kemmerer Savings Bank & Trust Company succeeded by Kemmerer Savings Bank.

NEW AND REGAINED MEMBERS FROM MARCH 1 TO 31, 1916, INCLUSIVE

Alabama.....	The Peoples Bank, Sheffield. 1	Illinois—Cont.....	North Shore Savings Bank, Chicago.
Arizona.....	Bank of Superior, Superior.		North Side State Savings Bank, Chicago.
Arkansas.....	Farmers State Bank, Conway. Planters Bank, Forrest City. First National Bank, Horatio. Farmers & Merchants Bank, Marked Tree.		Schiff & Company State Bank, Chicago.
California.....	American State Bank, Brawley. Farmers & Merchants Bank, Compton. First Bank of La Habra, La Habra. Peoples Trust & Savings Bank, Riverside. Anglo-California Trust Company, Mission Branch, San Francisco. San Joaquin Valley National Bank, Stockton. Whittier Savings Bank, Whittier. First National Bank, Winters.		West Town State Bank, Chicago.
Colorado.....	First National Bank, Craig. First State Bank, Crook. Colorado State & Savings Bank, Denver. State Bank of Lyons, Lyons. Farmers & Drovers Bank, Strasburg.		Millikin Trust Company, Decatur.
Connecticut.....	Mystic River National Bank, Mystic. First National Bank, New Canaan. American Bank & Trust Co., New Haven.		Dixon National Bank, Dixon.
District of Columbia	Dupont National Bank, Washington.		Dundee State Bank, Dundee.
Florida.....	Bank of Green Cove Springs, Green Cove Springs. First National Bank, Live Oak. Melbourne State Bank, Melbourne. Bank of Plant City, Plant City. Bank of Sebring, Sebring. Bank of Waldo, Waldo. Watertown Bank, Watertown.		First National Bank, Effingham.
Idaho.....	Bear Lake State Bank, Paris. Bank of Roberts, Roberts. Bank of Rogerson, Rogerson. The Commercial Bank, Shelley.		Galva State Bank, Galva.
Illinois.....	Argo State Bank, Argo. Bank of Baldwin, Baldwin. Bridgeport Bank & Trust Co., Bridgeport. Casey National Bank, Casey. Depositors State & Savings Bank, Chicago. Hegewisch Savings Bank, Chicago. Kirchman Savings Bank, Chicago.		Pope County State Bank, Golconda.
			Granville State Bank, Granville.
			Exchange Bank, Holcomb.
			Carterville Hurst Banking Co., Hurst.
			Kane State & Savings Bank, Kane.
			Macomb National Bank, Macomb.
			Bank of Milmine, Milmine.
			First National Bank, Nauvoo.
			Olney Trust & Banking Co., Olney.
			Oregon State Savings Bank, Oregon.
			First National Bank, Percy.
			Bond County Bank, Pocahontas.
			Rend Bank, Rend.
			First National Bank, Tamaroa.
			Farmers Bank, Trenton.
			First State Trust & Savings Bank, Urbana.
			Farmers & Merchants Bank, Vernon.
			First National Bank, Wilmette.
		Indiana.....	State Savings & Trust Co., Indianapolis.
			North Side Trust & Savings Co., Mishawaka.
			First National Bank, New Carlisle.
			St. Joseph Loan & Trust Co., South Bend.
		Iowa.....	First National Bank, Adair.
			Algona State Bank, Algona.
			Boone State Bank, Boone.
			Center Junction Savings Bank, Center Junction.
			Citizens Trust & Savings Bank, Davenport.
			State Bank of Deep River, Deep River.
			American Trust & Savings Bank, Des Moines.
			Corn Exchange Savings Bank, Elkhart.
			Ely Savings Bank, Ely.
			Hartford Savings Bank, Hartford.
			Keokuk Trust Co., Keokuk.
			Farmers Savings Bank, Kesley.
			Magnolia Savings Bank, Magnolia.
			Jackson State Savings Bank, Maquoketa.
			Mineola State Bank, Mineola.
			Union State Bank, Sheldon.
			Commonwealth Trust & Savings Bank, Sioux City.
			Thurman State Savings Bank, Thurman.
			Truro Savings Bank, Truro.
			Farmers Bank, Voorhies.
			Farmers Loan & Trust Co., Waterloo.

- Kansas**.....Farmers State Bank, Anthony.
Arma State Bank, Arma.
Baxter National Bank, Baxter Springs.
Beattie State Bank, Beattie.
Cambridge State Bank, Cambridge.
Chapman State Bank, Chapman.
Peoples State Bank, Chapman.
Gray County State Bank, Cimarron.
Farmers State Bank, Corning.
Farmers State Bank, Dunavant.
State Bank of Elmore, Elmore.
Farmers State Bank, Esbon.
Gardner State Bank, Gardner.
Hallowell State Bank, Hallowell.
Bank of Hamlin, Hamlin.
Citizens State Bank, Harper.
Home State Bank, Junction City.
State Savings Bank, Leavenworth.
Leonardville State Bank, Leonardville.
Mahaska State Bank, Mahaska.
C. M. Condon & Company State Bank, Oswego.
Security State Bank, Ottawa.
Farmers State Bank, Sedgwick.
Farmers State Bank, Wamego.
Farmers State Bank, Wilson.
- Louisiana**.....Bank of Jena, Jena.
Peoples State Bank, Many.
Bank of Pleasant Hill, Pleasant Hill.
First National Bank, Winnfield.
- Maine**.....Bethel National Bank, Bethel.
- Maryland**.....State Bank of Maryland, Highlandtown Branch,
Baltimore.
- Massachusetts**.....American Trust Company, Bunker Hill Branch,
Boston.
Exchange Trust Company, Boylston Street
Branch, Boston
Commercial Trust Company, Springfield.
- Michigan**.....Bank of Arcadia, Arcadia.
Central Savings Bank, Fort Street and Junction
Avenue Branch, Detroit.
Central Savings Bank, St. Aubin and Canfield
Avenues Branch, Detroit.
Central Savings Bank, Fourteenth and Grand
River Avenues Branch, Detroit.
Central Savings Bank, Grand River Avenue and
Boulevard Branch, Detroit.
Central Savings Bank, Jefferson and Dickerson
Avenues Branch, Detroit.
Central Savings Bank, Woodward and Forest
Avenues Branch, Detroit.
Grand Ledge State Bank, Grand Ledge.
Grant State Bank, Grant.
Lum Exchange Bank, Lum.
Citizens National Bank, Romeo.
- Minnesota**.....Adrian State Bank, Adrian.
Farmers State Bank, Atwater.
First National Bank, Beardale.
Breckenridge National Bank, Breckenridge.
Farmers State Bank, Carlisle.
Crookston State Bank, Crookston.
Clarkfield State Bank, Clarkfield.
State Bank of Frost, Frost.
Citizens State Bank, Gaylord.
State Bank of Hadley, Hadley.
Farmers State Bank, Hartland.
Farmers National Bank, Hutchinson.
- Minnesota—Cont.**.....Farmers & Merchants State Bank, Lancaster.
State Bank of Porter, Porter.
State Bank of Redwood Falls, Redwood Falls.
Farmers State Bank, Rothsay.
St. Paul State Bank, St. Paul.
Farmers State Bank, Simpson.
Farmers & Merchants State Bank, Verndale.
State Bank of Winsted, Winsted.
- Missouri**.....Bank of Blue Springs, Blue Springs.
First National Bank, Brunswick.
Farmers & Traders Bank, Iberia.
National Bank of Kirksville, Kirksville.
Farmers & Merchants Bank, Moberly.
Bank of Neck City, Neck.
Newtown State Bank, Newtown.
National Bank of North Kansas City, North
Kansas City.
Bank of Palmyra, Palmyra.
Peoples Bank, Perry.
Bank of Powersville, Powersville.
Bank of Republic, Republic.
Gravois Bank of St. Louis County, St. Louis.
First National Bank, Salem.
First National Bank, Savannah.
Farmers Bank of Urich, Urich.
Farmers Bank, Verona.
Bank of Worth, Worth.
- Montana**.....State Bank of Dutton, Dutton.
Valley County Bank, Hinsdale.
Blaine County State Bank, Harlem.
First State Bank, Opheim.
First State Bank, Ovando.
Farmers & Merchants State Bank, Plains.
Farmers State Bank, Worden.
- Nebraska**.....Peoples State Bank, Anselmo.
Security State Bank, Ansley.
Farmers State Bank, Avoca.
Bartlett State Bank, Bartlett.
Chester State Bank, Chester.
City National Bank, Crete.
Dalton State Bank, Dalton.
Bank of Dorchester, Dorchester.
Eddyville State Bank, Eddyville.
Elmwood State Bank, Elmwood.
Bank of Fairmont, Fairmont.
Farmers State Bank, Greenwood.
State Bank of Humboldt, Humboldt.
Bank of Lynch, Lynch.
North Loup State Bank, North Loup.
First National Bank, Randolph.
Citizens State Bank, St. Paul.
Farmers State Bank, Sargent.
Shelton State Bank, Shelton.
State Bank of Shickley, Shickley.
The American Bank, Sidney.
Citizens State Bank, Superior.
State Bank of Sutton, Sutton.
Valparaiso State Bank, Valparaiso.
Verdon State Bank, Verdon.
- New Jersey**.....Long Branch Banking Co., Long Branch.
The Matawan Bank, Matawan.
Half Dime Savings Bank, Orange.
- New Mexico**.....Reserve State Bank, Reserve.
- New York**.....First National Bank, Cato.
First National Bank, Cuba.
First National Bank, Harrisville.

- New York—Cont.... First National Bank of Ozone Park, Jamaica.
National Bank of Newport, Newport.
Corn Exchange Bank, Fordham Branch, New York.
First National Bank, Sodus.
- North Carolina.... Merchants & Manufacturers Bank, Andrews.
First State Bank, Bostic.
Farmers Bank & Trust Co., Cherryville.
Citizens Bank, Hot Springs.
Bank of Robeson, Maxton.
First National Bank, Mount Olive.
- North Dakota.... Golden Valley State Bank, Beach.
First National Bank, Crosby.
Forbes State Bank, Forbes.
Mountain State Bank, Mountain.
Peoples State Bank, Parshall.
- Ohio..... Citizens Bank Company, Ansonia.
Exchange State Bank, Bloomville.
Union Savings Bank & Trust Co., Fifth Street Branch, Cincinnati.
Union Savings Bank & Trust Co., Vine Street Branch, Cincinnati.
West Dayton Commercial & Savings Bank, Dayton.
Merchants National Bank, Defiance.
Farmers Banking Company, Eldorado.
First National Bank, Germantown.
National Bank of Morrow County, Mount Gilead.
Rushville Banking Co., Rushville.
Farmers Deposit Bank, South Vienna.
The Farmers Bank, Springboro.
Lagonda National Bank, Springfield.
- Oklahoma..... Bank of Bigheart, Bigheart.
Union National Bank, Chandler.
Peoples National Bank, Checotah.
Bank of Cyril, Cyril.
Farmers & Merchants State Bank, Eldorado.
Central State Bank, Enid.
First State Bank, Goodwell.
Farmers & Merchants Bank, Hooker.
First National Bank, Hooker.
First State Bank, Keota.
Planters State Bank, Mountain Park.
First National Bank, Muldrow.
Central State Bank, Muskogee.
Farmers National Bank, Pondercreek.
- Oregon..... Bank of Gresham, Gresham.
Lebanon National Bank, Lebanon.
First National Bank, Merrill.
- Pennsylvania..... Bank of Austin, Austin.
Lehigh Valley National Bank, Bethlehem.
Bridgeville Trust Company, Bridgeville.
National Bank of Corry, Corry.
- Pennsylvania..... First National Bank, Mercer.
First National Bank, Palmerton.
Market Street Title & Trust Co., Philadelphia.
Tioga Trust Company, Philadelphia.
The Security Company, Pottstown.
First National Bank, Ralston.
Peoples National Bank, Reynoldsville.
Farmers & Mechanics Bank, Sharpsburg.
Forest County National Bank, Tionesta.
Farmers & Merchants National Bank, Williamsburg.
- South Carolina.... First National Bank, Bishopville.
Bank of Bowman, Bowman.
First National Bank, Cheraw.
First National Bank, Springfield.
Farmers & Merchants Bank, Williston.
- South Dakota.... Farmers State Bank, Flandreau.
Miners & Merchants Savings Bank, Lead.
- Tennessee..... Clarksville National Bank, Clarksville.
American National Bank, Dayton.
National Bank of Franklin, Franklin.
- Texas..... Avery State Bank, Avery.
First State Bank, Boonsville.
Burnet National Bank, Burnet.
First State Bank, Canyon.
Crosby State Bank, Crosby.
Citizens National Bank, Daingerfield.
First State Bank, Donna.
Security Trust & Savings Bank, El Paso.
First State Bank, Hedley.
Lockhart State Bank, Lockhart.
Farmers Guaranty State Bank, North Zulch.
First National Bank, Olney.
Powell State Bank, Powell.
First National Bank, Quitman.
First National Bank, Rogers.
Farmers & Merchants State Bank, Riesel.
First Bank of Swenson, Swenson.
The Taft Bank, Taft.
The West Bank, West.
- Utah..... Bank of Duchesne, Duchesne.
Gunnison Valley Bank, Gunnison.
- Virginia..... Bank of Gloucester, Gloucester.
Commonwealth National Bank, Reedville.
- Washington..... State Bank of Sequim, Sequim.
- West Virginia.... Beckley National Bank, Beckley.
Bank of Charles Town, Charles Town.
Lowndes Savings Bank & Trust Co., Clarksburg.
First National Bank, Grafton.
Bank of Mullens, Mullens.
Commercial Banking & Trust Co., Parkersburg.
Farmers & Mechanics National Bank, Parkersburg.
Farmers & Merchants Bank, Pennsboro.
- Wisconsin..... Farmers State Bank, Bangor.
Clintonville State Bank, Clintonville.
Coon Valley State Bank, Coon Valley.
State Bank of Hudson, Hudson.
Farmers & Citizens State Bank, Lancaster.
German American Bank, Manitowoc.
Park Savings Bank, Milwaukee.
Wisconsin State Savings Bank, Milwaukee.
- Wyoming..... Stockgrowers Bank, Evanston.
- Porto Rico..... Banco Popular de Economias y Préstomas, San Juan.

